

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2019-290-WS – ORDER NO. 2020-__
MARCH __, 2020

IN RE: Application of Blue Granite Water)
Company for Approval to Adjust Rate)
Schedules and Increase Rates)
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PROPOSED ORDER
RULING ON
APPLICATION FOR
ADJUSTMENTS IN RATE
SCHEDULES AND
INCREASED RATES

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I. EXECUTIVE SUMMARY

We offer the following executive summary of issues to provide a condensed explanation of certain significant components of this order.

Return on Equity

The Commission is the fact finder in rate proceedings and must balance the interests of the using and consuming public with that of the utility appearing before it. The record of evidence indicates that the cost of common equity nationally is on the decline. Additionally, the evidence in the record lead this Commission to conclude that witness D'Ascendis' ROE recommendation is too high. In contrast, both ORS witness Parcell and CA witness Rothschild presented ROE recommendations to be awarded to Blue Granite that comply with the requirements set forth in *Hope* and *Bluefield*. In considering the quality of service issues known to exist with Blue Granite and the setting of just and reasonable rates, this Commission concludes that the midpoint of witness Rothschild's recommended ROE, 8.65%, and the top value of witness Parcell's range, 10.0%, constitutes the appropriate ROE range for Blue Granite. We conclude that the midpoint of that range, approximately 9.33%, is the appropriate ROE for Blue Granite and is both objectively just and reasonable and supported by the evidence on the whole record.

Depreciation Schedule

In connection with this docket, Blue Granite conducted its first depreciation study of its water and wastewater plant assets in 35 years. Based on the evidence of record, the Company's existing depreciation rates, which assume a 66 2/3 useful life for all asset accounts, are largely inaccurate. We agree with the recommendations of ORS witness David Garrett to reduce the Company's proposed depreciation accrual by approximately \$760,236 calculated as of December 31, 2018. Witness Garrett credibly employed a reasonable, objectively oriented methodology, and

we adopt his recommended service life estimates and net salvage cost estimates for purposes of setting Blue Granite's rates.

Non-Revenue Water

The Commission deems it appropriate to continue the 10% threshold for non-revenue water set in Blue Granite's prior rate case and which the Commission has used in other cases as well. While Blue Granite is correct that the AWWA no longer appears to recommend across-the-board thresholds, Blue Granite has not provided subdivision-specific proposals for the Commission to consider. Instead, Blue Granite proposes to recover all non-revenue water from customers or that a threshold of 20% be set. The Commission finds the former approach unreasonable and not beneficial to customers. It also does not adequately incentivize Blue Granite to reduce non-revenue water. As for the 20% threshold, Blue Granite has not provided sufficient justification to double the threshold set in the prior case. While Blue Granite testifies to projects undertaken to reduce non-revenue water, it does not provide quantifiable support for how those projects have reduced non-revenue water.

Annual Rate Adjustment Mechanism

The Commission declines to approve the Annual Rate Adjustment Mechanism ("ARAM") Blue Granite proposes. The ARAM as originally proposed would have allowed Blue Granite to charge customers for all water they did not consume and all wastewater they did not create. The ARAM does not adequately incentivize Blue Granite to reduce "inflow and infiltration" and non-revenue water. While Blue Granite has sought to address some of the concerns raised by the parties through incorporation of the non-revenue water threshold set in this Order and through notice and a hearing in which the public can participate as part of the annual process, it also has stated the process would be a "strictly a mathematical exercise," without much room for interpretation.

Additionally, we do not believe the ARAM would improve bill clarity for customers because the methodology for calculating the purchased water and sewer charges is confusing and does not yield a number that reflects the actual cost of the purchased water or sewer treatment charged by the third-party provider.

The Commission also declines to approve the changes Blue Granite proposes to its rate structure to add separate purchased water and sewer treatment charges, which were proposed to effectuate the ARAM. Blue Granite shall maintain its existing rate structure of a Base Facility Charge, a commodity charge based on water consumption for water customers, and per Single Family Equivalent charge for sewer customers.

Office Upfit

The Commission approves the adjustment recommended by ORS to disallow the costs of the upfit to Blue Granite's new Greenville office. Blue Granite indicated employee retention issues were the reason the Company moved its headquarters to Greenville. The Company testified that "[a]ttracting talent in the Columbia market [was] extremely difficult due to the legacy brand issues in that market." The legacy brand issues were caused by Carolina Water Service, which is now rebranded as Blue Granite. Blue Granite's customers should not have to pay the costs to upfit the Greenville office, given the move was necessitated by legacy brand problems the Company created, and Blue Granite previously represented to this Commission and its customers that the refreshing of its brand would be at no cost to customers.

Round Up Program

The Commission authorizes Blue Granite to create a Round Up Program with the modifications ORS proposes. Blue Granite is prohibited from passing on to customers the administrative and implementation costs for the Program, including the bill inserts/flyers and the

modifications to Blue Granite’s billing and customer service systems. The estimated costs for the bill inserts/flyers and the modifications to Blue Granite’s billing and customer service systems are not known and measurable and do not contribute to the provision of safe and reliable water and sewer service. In addition, customers who do not choose to participate in the voluntary program should not be required to pay administrative costs associated with it.

II. INTRODUCTION

Blue Granite filed its notice of intent to apply to adjust its rates on August 30, 2019. Blue Granite filed its Application on October 2, 2019. The Company filed amended exhibits to its application—an amended proposed tariff and amended proposed customer and newspaper notices—on October 16, 2019. The Commission Clerks’ Office filed the revised customer and newspaper notices on October 24, 2019. On December 3, 2019, the Company filed an Affidavit of Mailing of the revised notice to all customers, a Certification of Mailing to County and City Administrators, and proofs of publication for The State, the Post and Courier, the Greenville News, the Herald Fort Mill Times, and the Greenwood Index-Journal.

On December 19, 2019, ORS filed a Motion for Partial Summary Judgment Regarding the Proposed Annual Rate Adjustment Mechanism. After an extension, Blue Granite responded on January 6, 2020. ORS withdrew its motion on January 15, 2020, in light of representations in Blue Granite’s direct testimony that the Company was willing to agree to procedural protections in connection with the ARAM that were not delineated in its Application.

The Commission Clerk’s Office established a deadline to file a petition to intervene of December 16, 2019. The Commission received petitions to intervene from Forty Love Point Homeowners’ Association (“Forty Love”); the Building Industry Associations of South Carolina; the South Carolina Department of Consumer Affairs (“Consumer Advocate”); the Town of Irmo;

James S. (“Jim”) Knowlton; SteFan Dover; and York County, South Carolina. The Commission granted all petitions to intervene filed in this docket. *See* Order Nos. 2020-22; 2020-21; 20200-20; 2020-19; 2019-849; 2019-799; 2019-746.

The Commission Clerk’s Office established prefile testimony deadlines. Pursuant to that schedule, the deadline for the Company’s Direct Testimony was December 30, 2019; Intervenor Direct Testimony was due January 22, 2020; the Company’s Rebuttal Testimony was due February 5, 2020; and Intervenor Surrebuttal testimony was due February 12, 2020.

Blue Granite filed the direct testimony of Dylan D’Ascendis, Donald Denton, Dante DeStefano, Shawn Elicegui (confidential and public versions), Bryce Mendenhall, and John Spanos on December 30, 2020. Blue Granite filed the Corrected Testimony and Exhibit of Dylan D’Ascendis on January 10, 2020.

Following request for a one-day extension of the remaining prefiled testimony deadlines, the deadline to file direct testimony was extended to January 23, 2020. *See* Order No. 2020-7-H. ORS, the Consumer Advocate, York County, Forty Love, Jim Knowlton, and SteFan Dover filed direct testimony. ORS filed the direct testimony and exhibits of Daniel F. Sullivan, David J. Garrett, Kyle D. Maurer, Sr., P.E., Anthony D. Briseno, Anthony M. Sandomato, Brandon S. Bickley, and David C. Parcell, and the direct testimony of Charles E. Jackson. The Consumer Advocate filed the direct testimony and exhibits of Jerome D. Mierzwa, Lafayette K. Morgan, and Aaron L. Rothschild. The Consumer Advocate filed corrected direct testimony of Lafayette K. Morgan and Aaron L. Rotshchild on January 31, 2020 and corrected exhibits for Mr. Morgan and Mr. Rothschild on February 2, 2020.

Forty Love filed the direct testimony of Barbara King and Reid Radtke. York County filed the direct testimony of Eric Rekitt. SteFan Dover and Jim Knowlton also prefled direct testimony. Mr. Dover filed corrected testimony on March 3, 2020.

On February 6, 2020, Blue Granite filed the rebuttal testimony and exhibits of Dante DeStefano, J. Bryce Mendenhall, and Dylan D'Ascendis, and the rebuttal testimony of John Spanos and Donald Denton.

Following request for a one-day extension, the deadline to file surrebuttal testimony was extended to February 14, 2020. *See* Order No. 2020-10H. The Consumer Advocate filed the Surrebuttal Testimony of Jerome D. Mierzwa (with Exhibit), Aaron L. Rothschild, and Lafayette Morgan, Jr. The Consumer Advocate filed updated corrected exhibits for Aaron L. Rothschild on February 25, 2020.

ORS filed the surrebuttal testimony and exhibits of Brandon S. Bickley, Anthony D. Briseno, Dr. Kyle Maurer, Sr., P.E., Daniel F. Sullivan, David C. Parcell, and testimony of Charles E. Jackson and David J. Garrett. On February 24, 2020, ORS filed the Revised Surrebuttal Testimony and exhibits of Daniel F. Sullivan, and Anthony M. Sandomato, and the Revised Surrebuttal Testimony of Kyle D. Maurer Sr. and Anthony D. Briseno. The revisions primarily reflected a change to ORS's recommended adjustment for purchased water and sewer expenses going forward.

The Commission held six night hearings to hear directly from affected customers. *See* Order Nos. 2019-830 (Greenville); 2019-829 (Union); 2019-827 (Lexington); 2019-825 (York); 2019-831 (Anderson¹); 2019-826 (Irmo). The Commission Clerk's Office filed a Notice of Public

¹ On February 6, 2020, due to severe inclement weather, the Public Hearing in Anderson was cancelled.

Night Hearings on January 6, 2020, and Blue Granite filed an affidavit that it mailed the appropriate notice on January 16. The Commission held nights hearings on January 27 in Lexington, on January 30 in Irmo, on February 3 in Union, on February 13 in Greenville, on February 27 at the Commission's hearing room, and on March 5 in York. Due to inclement weather, the York hearing was re-scheduled from February 20 to March 5, and a seventh night hearing, originally scheduled for Anderson on February 6, was combined into the Greenville hearing.

In total, over 500 people attended the Blue Granite night hearings, and over 150 signed up for the opportunity to speak. (*See* Hr'g Exs. 1, 6, 9, 10, 24, 43.) At all of the night hearings, the magnitude of Blue Granite's requested increase was an issue of almost universal concern. The unfairness and inequity of flat sewer rates was also one of the most frequent and recurring concerns that customers testified to.

Another common concerns involved the lack of system improvements. As Union customer Paul Winters testified, "There's been occasions where they've maybe done some work [to improve facilities] But I haven't seen any marked difference out there in 30 years only thing that's changed is rates." (Tr. 271.) Many customers, particularly in York County, testified about the lack of satisfactory communication and notification, particularly in connection with the implementation of boiled water advisories.

A number of customer witnesses also discussed water quality issues. According customer witness Goforth, "...as far as the water quality, our boil advisories have increased. Our water quality has decreased. ...[the water] tastes like dirt..." (Tr. p. 88, ll. 18-22). Customer witness Vaccaro testified that the water quality is not good and "[t]he quality of service is not even close to what we pay for now." (Tr. p. 192, l. 3; ll. 7-8). According to customer witness Fernandez, the

water quality is so bad he does not drink the water. (Tr. p. 196, ll. 16-19). Several customers in York County testified to water quality issues, including multiple customers who had invested in water filtration systems costing several hundred dollars annually to run to mitigate continuing water quality issues.

Several customers discussed billing issues, and a number of York witnesses testified that Blue Granite had disconnected their service without notice, sometimes due to billing errors by the Company. Multiple customers also expressed concerns relating to aging infrastructure, maintenance issues, sewage backup, and office relocation and upgrade expenses being charged to customers. One York customer testified that school had to be shut down for three days due to the absence of safe and reliable water service.

Customers also testified in opposition to Blue Granite's proposed pass-through of costs, including concerns related to Blue Granite's perceived untrustworthiness like those expressed by customer witness Judith Blasey. When discussing the lack of trust that Blue Granite has built for itself, customer witness Olawsky stated, "I read where some of the people from the company said, 'You know, trust us. We're going to try to do better.' That's kind of out the window. Our community lives next to their plant. We've been dealing with [sewage dumps in Lake Murray] for years and years and years." (Tr. p. 42, ll. 18-23).

The merits hearing began on February 26, 2020, at the Commission's hearing room and continued four business days, ending March 2, 2020. With permission, Blue Granite witness Shawn Elicegui and Consumer Advocate witness Jerome Mierzwa appeared by videoconference. After the merits hearing, the following corrected testimony was submitted: Revised and Corrected Testimony of SteFan Dover; Clean Copy of the Direct Testimony of Brandon S. Bickley, Redlined Page 7 of the Direct Testimony of Brandon S. Bickley, and a Clean Copy of the Revised

Surrebuttal Testimony of Anthony D. Briseno; Clean Copy of the Corrected Direct Testimony of Lafayette K. Morgan, Redlined Copy of the Corrected Direct Testimony of Lafayette K. Morgan, Clean Copy of the Surrebuttal Testimony of Lafayette K. Morgan, and Redlined Copy of the Surrebuttal Testimony of Lafayette K. Morgan; Redlined Copy of the Corrected Direct Testimony of Aaron L. Rothschild; Clean Copy of the Surrebuttal Testimony of Aaron L. Rothschild and Redlined Copy of the Surrebuttal Testimony of Aaron L. Rothschild

III. STATUTORY STANDARDS AND REQUIRED FINDINGS

South Carolina Code Ann. § 58-5-210 provides, “[t]he Public Service Commission is hereby...vested with power and jurisdiction to supervise and regulate the rates and service of every public utility in this State, together with the power, after hearing, to ascertain and fix such just and reasonable standards, classifications, regulations, practices and measurements of service to be furnished, imposed, observed and followed by every public utility in this State and the State hereby asserts its rights to regulate the rates and services of every ‘public utility’ as herein defined.” Pursuant to these powers, the Commission is “entitled to create incentives for utilities to improve their business practices.” *Utils. Servs. of South Carolina, Inc. v. SC PSC*, 392 S.C. 96, 105 (2011).

Additionally, “adjustments are within the discretion of the Commission and must be known and measurable within a degree of reasonable certainty. Absolute precision, however, is not required.” *Hamm v. SC PSC*, 309 S.C. 282 (citing *Michaelson v. New England Tel. & Tel. Co.*, 121 R.I. 722, 404 A.2d 799 (1979)).

“Although the burden of proof of the reasonableness of all costs incurred which enter into a rate increase request rests with the utility, the utility’s expenses are presumed to be reasonable and incurred in good faith. This presumption does not shift the burden of persuasion but shifts the burden of production on to the . . . contesting party to demonstrate a tenable basis for raising the

specter of imprudence. . . . The ultimate burden of showing every reasonable effort to minimize . . . costs remains on the utility.” Utilities Servs. of S.C., Inc. v. SC PSC, 392 S.C. 96, 109–10 (2011).

The Commission, as an administrative agency, “is generally not bound by the principle of *stare decisis* but it cannot act arbitrarily in failing to follow established precedent.” See 330 *Concord St. Neighborhood Ass’n v. Campsen*, 309 S.C. 514, 517–18, 424 S.E.2d 538, 539–40 (Ct. App. 1992).

According to S. C. Code Ann. § 58-3-60, “[t]he commission shall not inspect, audit, or examine public utilities. The inspection, auditing, and examination of public utilities is solely the responsibility of the Office of Regulatory Staff.”

The Commission must consider the evidence presented to it on the formal record. “Because the PSC is both entitled and required to consider the evidence presented to it on the formal record, we hold the PSC is entitled to rely on sworn testimony presented by non-party protestants to overcome the presumption of reasonableness.” *Utils. Servs.*, 392 S.C. at 105.

Regarding the determination of Blue Granite’s cost of equity, the Commission must determine a fair rate of return that the utility should be allowed the opportunity to earn after recovery of the expenses of utility operations. The legal standards for this determination are set forth in *Federal Power Comm’n v. Hope Natural Gas Co.*, 320 U.S. 591, 602-03(1944) (“*Hope*”) and *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-93 (1923) (“*Bluefield*”).

Bluefield holds that:

What annual rate will constitute just compensation depends upon many circumstances, and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts. A public utility is entitled to such rates

as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting the opportunities for investment, the money market and business conditions generally.

Bluefield, 262 U.S. at 692-93.

The Commission and South Carolina appellate courts have consistently applied the principles set forth in *Bluefield* and *Hope*. *Southern Bell Tel. & Tel. Co. v. Pub. Serv. Comm'n*, 270 S.C. 590 (1978). Quoting *Hope*, the South Carolina Supreme Court held:

...Under the statutory standard of 'just and reasonable' it is the result reached not the method employed which is controlling...The ratemaking process under the Act, i.e., the fixing of 'just and reasonable' rates, involves the balancing of investor and the consumer interests. *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 602-03(1944).

This Commission must exercise its dual responsibility of permitting utilities an opportunity to earn a reasonable return on the property it has devoted to serving the public, on the one hand, and protecting customers from rates that are so excessive as to be unjust or unreasonable, on the other, by “(a) Not depriving investors of the opportunity to earn reasonable returns on the funds devoted to such use as that would constitute a taking of private property without just compensation[, and] (b) Not permitting rates which are excessive.” *So. Bell*, 270 S.C. at 605.

Additionally, the Commission’s determination of a fair rate of return must be documented fully in its findings of fact and based exclusively on reliable, probative, and substantial evidence on the whole record. *Porter v. South Carolina Public Service Commission*, 504 S.E.2d 320, 323

(1998). In making its decision, this Commission cannot make a determination based upon surmise, conjecture or speculation. *See Herndon v. Morgan Mills, Inc.*, 246 S.C. 201, 143 S.E.2d 376 (1965).

IV. REVIEW OF THE EVIDENCE AND EVIDENTIARY CONCLUSIONS

A. Cost of Capital

1. Return on Equity

ORS's Position

ORS retained David Parcell to evaluate the cost of capital aspects of Blue Granite, relative to the current rate increase filing. (Tr. p. 1004.2, ll. 5-7). Witness Parcell testified that he employed three recognized methodologies to calculate Blue Granite's cost of equity, each of which he applied to three proxy groups of water utilities. (Tr. p. 1004.3, ll. 16-18). Witness Parcell testified that the three methodologies and his findings were:

Methodology	Range
Discounted Cash Flow ("DCF")	8.2-8.9%
Capital Asset Pricing Model ("CAPM")	5.9-6.2%
Comparable Earnings ("CE")	9.0-10.0%

(Tr. p. 1004.3, ll. 18-19, p. 1004.4, l. 1)

Witness Parcell concluded that Blue Granite's cost of equity was within a range of 8.9% to 10.0% (9.45% mid-point), which is based upon the upper-end of his DCF results and upper-end of his CE results models. (Tr. p. 1004.4, ll. 3-5).

In utilizing the Discounted Cash Flow ("DCF") Analysis, witness Parcell testified that this model is one of the oldest and most commonly-used models for estimating the ROE for public utilities and is based upon the two principles that: 1) investors value an asset on the basis of the

future cash flows (i.e., dividends and ultimate sales in the case of common stocks) they expect to receive from owning the asset and 2) investors value a dollar received in the future less than a dollar received today (i.e., the “time value of money”). (Tr. p. 1004.20, ll. 21-23, p. 21, l. 1). According to witness Parcell’s analysis, a range of 8.2 % to 8.9 % represents the current DCF-derived ROE for the proxy groups at this time. (Direct, p. 25, ll. 1-2). Witness Parcell recommended a DCF ROE of 8.9% for Blue Granite, which focuses on the highest DCF rates (i.e., range of 8.2% to 8.9%) and exceeds the low and mean and median DCF rates. (Tr. p. 1004.25, ll. 3-5).

In his surrebuttal testimony, witness Parcell testified that witness D’Ascendis’ updated DCF result (found in his rebuttal testimony), is 8.91%, which is consistent with his 8.9% DCF conclusion. (Tr. p. 1005.2, ll. 20-21). While witness D’Ascendis testified that the DCF model has a tendency to underestimate the investor required return rates and thus the cost of equity, witness Parcell testified that to make a modification of the DCF cost rates, as witness D’Ascendis implicitly proposes, amounts to an attempt to “reprice” stock values in order to develop a DCF cost rate more in line with what witness D’Ascendis thinks the results should be. (Tr. p. 1005.3, ll. 7-13). According to witness Parcell, this is a violation of the principle of “efficient markets,” which is the basis for all market-based ROE models. (Tr. p. 1005.3, ll. 13-14).

Regarding the Capital Asset Pricing Model (“CAPM”) Analysis, witness Parcell testified that this model describes the relationship between a security’s investment risk and its market rate of return and identifies the rate of return that investors expect a security to earn so that its market return is comparable with the market returns earned by other securities that have similar risk. (Tr. p. 1004.25, ll. 21-22, p. 26, ll. 1-2). According to witness Parcell, the CAPM is a variant of the risk premium (“RP”) method; however, he testified that the CAPM is generally superior to the

simple RP method because the CAPM specifically recognizes the risk of a particular company or industry, whereas the simple RP method assumes the same cost of equity for all companies exhibiting similar bond ratings or other characteristics. (Tr. p. 1004.27, ll. 23-24, p. 28, ll. 1-3). Witness Parcell included his CAPM calculations in his schedule 8 of Exhibit [DCP-2], the results were:

	Mean	Median
Value Line Group	6.0%	5.9%
Parcell Group	6.1%	6.2%
D'Ascendis Group	6.0%	6.1%

(Tr. p. 1004.31, ll. 6-7).

According to witness Parcell, the CAPM results collectively indicate a cost of equity of 5.9% to 6.2% for the groups of proxy utilities and he concluded that an appropriate CAPM cost of equity estimation for Blue Granite was 6.2%, the upper end of this range. (Tr. p. 1004.31, ll. 10-12). While witness D'Ascendis asserted that witness Parcell's CAPM analysis should have used forecasted yields on U.S. Treasury Bonds rather than the current yields, witness Parcell testified that it was proper to use the current yield as the risk free rate in a CAPM context, because the current yield is known and measurable and reflects investors' collective assessment of all capital market conditions; whereas, prospective interest rates are not measurable and not achievable. (Tr. p. 1005.4, ll. 12-20).

In conducting a Comparable Earnings ("CE") Analysis, witness Parcell testified this method is based upon the economic concept of "opportunity cost," which includes the prospective return available to investors from alternative investments of similar risk. (Tr. p. 1004. 31, ll. 15-

17). Witness Parcell testified that when *Hope* and *Bluefield* hold that the return to the equity owners be sufficient to maintain the credit of the enterprise and confidence in its financial integrity; to permit the enterprise to attract required additional capital on reasonable terms; and, to provide the enterprise and its investors with an earnings opportunity commensurate with the returns available on investments in other enterprises having corresponding risks, these three interrelated criteria constitute a succinct statement of the opportunity cost principle. (Tr. p. 1004.32, ll. 4-11). As a result, witness Parcell testified this method provides a direct measure of the fair return, since it translates into practice the competitive principle upon which regulation rests and, it provides a direct measure of the fair return, since it translates into practice the competitive principle upon which regulation rests. (Tr. p. 1004.32, ll. 16-19).

According to witness Parcell, his CE analysis indicates that the required ROE for the proxy utilities is no more than 9.0% to 10.0% (9.5% mid-point). (Tr. p. 1004.36, ll. 10-12). Witness Parcell's specific CE recommendation is the upper of this range, or 10.%. (Tr. p. 1004.36, ll. 20-21).

As a result of his analyses, witness Parcell recommended an ROE range of 8.9% to 10.0% for Blue Granite and a specific cost of equity of 9.45% for Blue Granite, which is the mid-point of this range. (Tr. p. 1004.37, ll. 5-8).

Witness Parcell disagrees with multiple aspects of witness D'Ascendis' ROE approach. Regarding witness D'Ascendis use of the Predictive Risk Premium Model ("PRPM"), witness Parcell testified that this approach is relatively new and untried, primarily used by Mr. D'Ascendis and other people in his firm, produces a much higher cost of equity result, and is also a component in witness D'Ascendis' Adjusted Total Market Approach methodologies, which has the effect of raising the results of this methodology as well. (Tr. p. 1004.40, ll. 13-18). Witness Parcell also

disagrees with witness D'Ascendis' Adjusted Total Market Approach methodology and conclusions because: witness D'Ascendis' use of total stock returns over the 1928-2018 period, in connection with bond yields over the same long period, implies that investors in 2020 expect such relationships to be the same when there is no demonstration that current investors expect such relationships to exist at the current time; his methodology is a mismatch since it compares holding period returns (i.e., capital gains/losses plus income) with yields on bonds (i.e., only income return); and the 1928-2018 period was heavily influenced by the Great Depression, World War II, the high inflation/interest rate environment of the 1970s/1980s, etc. and such factors are not prevalent currently. (Tr. p. 1004.42, ll. 1-8). According to witness Parcell, these issues have the effect of inflating risk premiums over those expected by investors. (Tr. p. 1004.42, ll. 8-10).

Witness Parcell also testified that witness D'Ascendis' use of projected interest rates frequently leads to an overstatement of 30-Year U.S. Treasury bond yields, thus rendering these assumptions in witness D'Ascendis' ROE models incorrect. (Tr. p. 1005.5, ll. 11-14). According to witness Parcell, witness D'Ascendis' recommendation that was adopted by this Commission in Docket No 2017-292-WS contained assumptions that significantly overstated the level of interest rates and overstated the required ROE for Blue Granite. (Tr. p. 1005.15, ll. 1-9).

Witness Parcell also testified that he did not agree with witness D'Ascendis' inclusion of a "business risk" adjustment of .5% due to the size of Blue Granite because it was not justified or appropriate. (Tr. p. 1004.45, ll. 1-8). According to witness D'Ascendis' reasoning, each of the subsidiaries of the proxy water utilities should be considered as riskier than the proxy group since, by definition, they would have to be smaller. (Tr. p. 1004.45, ll. 13-15). Witness Parcell testified that this reasoning is flawed, because these individual water company subsidiaries do not raise

their equity capital directly from investors, but rather do so as a consolidated entity. (Tr. p. 1004.45, ll. 15-17).

Finally, witness Parcell disagrees with witness D'Ascendis' use of a non-regulated proxy group in his ROE Analysis. According to witness Parcell, unregulated enterprises face different risk and operational characteristics than do utilities and as a result, it is not proper to use non-regulated firms in the manner witness D'Ascendis proposes. (Tr. p. 1004.44, ll. 10-18).

In witness Parcell's surrebuttal testimony, he noted that witness D'Ascendis recommends a ROE for Blue Granite of 9.75% to 10.25% in his rebuttal testimony, which is a reduction from the 10.2% to 10.7% range recommended in his direct testimony and reflects the obvious decline in capital costs over the past several months. (Tr. p. 1005.2, ll. 13-16).

BGWC's Position

Witness D'Ascendis initially recommended a common equity range of between 10.20% and 10.70%. (Tr. p. 547.4, ll. 9-12). In his rebuttal testimony, witness D'Ascendis updated his analysis and recommended a common equity range between 9.75% and 10.25%. (Tr. p. 548.4, ll. 4-9). Witness D'Ascendis testified that his recommendation results, in part, from the application of several cost of common equity models, specifically the Discounted Cash Flow ("DCF") model, the Risk Premium Model ("RPM"), and the Capital Asset Pricing Model ("CAPM"), to the market data of a proxy group of six water companies. (Tr. p. 547.5, ll. 7-10). Witness D'Ascendis also testified that he applied the DCF, RPM, and CAPM to a proxy group of domestic, non-price regulated companies comparable in total risk to the six water companies. (Tr. p. 547.5, ll. 11-13).

Witness D'Ascendis testified that after analyzing the indicated common equity cost rates derived through these models, he concluded that a common equity cost rate of 10.20% for the Company was appropriate before any Company-specific adjustments; however, to account for the

different risk profile between Blue Granite and the companies he chose in his proxy group, witness D'Ascendis then adjusted his recommendation upward by 0.50%, resulting in a business risk adjusted indicated common equity cost rate of 10.70%. (Tr. p. 547.6, ll. 17-22). Therefore, according to witness D'Ascendis, the unadjusted common equity cost rate based on the Utility Proxy Group of 10.20% and the business risk adjusted common equity cost rate of 10.70% applicable to Blue Granite form the basis of his recommended range of common equity cost rates between 10.20% and 10.70%. (Tr. p. 547.6, ll. 22-25).

Regarding witness D'Ascendis' DCF model, he testified that in using the single-state constant growth DCF model the mean result was 8.93%, the median result is 9.13%, and the average of the two is 9.03% for the Utility Proxy Group. Tr. p. 547.16, l. 12, p. 547.18, ll. 2-4). Witness D'Ascendis acknowledged that witness Parcell's DCF results are comparable to his DCF results. (Tr. p. 547.8, ll. 2-3).

Witness D'Ascendis testified that DCF results should be viewed with caution and that witness Rothschild gives equal weight to his constant growth DCF, his non-constant growth DCF and his CAPM to arrive at his initial ROE recommendation, effectively giving 2/3 weight to DCF models in his analysis. (Tr. p. 548.54, ll. 18-19, p. 55, ll. 1-3). Additionally, witness D'Ascendis testified that witness Rothschild's application of the Constant-Growth DCF is flawed because he relied on the sustainable growth methodology to derive the growth rate component in his model. (Tr. p. 548.55, ll. 7-8).

Regarding witness D'Ascendis' application of the non-constant growth DCF model, witness D'Ascendis asserted that witness Rothschild's calculation of expected sale price (projected book value multiplied by M/B ratio) is overly simplistic and does not consider other measures in

Value Line that could also be used to calculate future prices (i.e. P/E ratio multiplied by projected EPS). (Tr. p. 548.64, ll. 8-19).

In applying an RPM model, witness D'Ascendis testified that he relied on the results of the application of two risk premium methods: the PRPM and a risk premium model using a total market approach. (Tr. p. 547.19, ll. 3-4). Witness D'Ascendis testified that the mean PRPM indicated common equity cost rate for the Utility Proxy Group is 11.02%, the median is 10.91%, and the average of the two is 10.97%. (Tr. p. 547.20, ll. 7-9). Additionally, he relied on the average of the mean and median results of the Utility Proxy Group PRPM to calculate a cost of common equity rate of 10.97%. (Tr. p. 547.20, ll. 9-12).

Witness D'Ascendis' total market approach RPM is intended to add a prospective public utility bond yield to an average of 1) an equity risk premium that is derived from a beta-adjusted total market equity risk premium, and 2) an equity risk premium based on the S&P Utilities Index. (Tr. p. 547.20, ll. 14-16). Witness D'Ascendis calculated a common equity cost rate of 9.80% for the Utility Proxy Group based on the total market approach of the RPM. (Tr. p. 547.27, ll. 18-19). Witness D'Ascendis' analyses indicated a RPM-derived common equity cost rate of 10.39%, which gives equal weight to the PRPM (10.97%) and the adjusted market approach results (9.80%). (Tr. p. 547.28, ll. 1-5).

Witness D'Ascendis also utilized a CAPM model to estimate the cost of common equity. Witness D'Ascendis testified that the results of his analyses were shown on page 1 of Schedule DWD-5 and are as follows: the mean result of my CAPM/ECAPM analyses is 9.94%, the median is 9.87%, and the average of the two is 9.91%. (Tr. p. 547.34, ll. 3-4). Utilizing the average of mean and median DCF results, the indicated common equity cost rate using the CAPM/ECAPM is 9.91%. (Tr. p. 547.34, ll. 4-6).

Witness D'Ascendis testified that witness Parcell's CAPM is unreasonable and that witness Parcell does not consider his CAPM results in his determination of his final cost of common equity range. (Tr. p. 548.13, ll. 3-5).

Witness D'Ascendis also analyzed common equity cost rates for a proxy group of domestic, non-price regulated companies utilized the DCF, RPM, and CAPM models. (Tr. p. 547.34, ll. 7-11). According to witness D'Ascendis, since the purpose of rate regulation is to be a substitute for the competition of the marketplace, non-price regulated firms operating in the competitive marketplace make an excellent proxy if they are comparable in total risk to the Utility Proxy Group being used to estimate the cost of common equity. (Tr. p. 547.34, ll. 11-14). Witness D'Ascendis testified the results of the DCF, RPM, and CAPM applied to the Non-Price Regulated Proxy Group comparable in total risk to the Utility Proxy Group are 12.14%, 11.60%, and 10.84%, respectively (Tr. p. 547.37, ll. 3-5). Witness D'Ascendis testified that the average of the mean and median of these models is 11.57%, which he used as the indicated common equity cost rate for the Non-Price Regulated Proxy Group. (Tr. p. 547.37, ll. 5-7).

According to witness D'Ascendis, based on the results of the application of multiple cost of common equity models to the Utility Proxy Group and the Non-Price Regulated Proxy Group, the indicated cost of equity before adjustment is 10.20%. (Tr. p. 547.37, ll. 10-12).

Witness D'Ascendis testified that Blue Granite faces unique business risk. (Tr. p. 547.38, ll. 3-8). Witness D'Ascendis testified a company's size constitutes a significant element of business risk for which investors expect to be compensated through higher returns and that smaller companies are less able to cope with significant events that affect sales, revenues, and earnings. (Tr. p. 547.40, ll. 13-15). According to witness D'Ascendis, when determining his business risk adjustment, his calculations resulted in a 4.37% upward size adjustment; however, he applied a

business risk premium of 0.50% to Blue Granite's indicated common equity cost rate. (Tr. p. 547.42, ll. 4-6). Therefore, according to witness D'Ascendis, given the indicated cost of common equity based on the Utility Proxy Group of 10.20%, and the business risk-adjusted cost of common equity of 10.70%, in his direct testimony, he concluded that an acceptable range of cost of common equity for the Company is between 10.20% and 10.70%. (Tr. p. 547.43, ll. 17-20).²

CA's Position

Witness Rothschild recommended a cost of equity of 8.65% for Blue Granite. (Tr. p. 672.4, ll. 16-20). According to witness Rothschild, the primary reasons witness D'Ascendis and he recommend a different cost of equity for Blue Granite is because witness D'Ascendis includes a group of 14 "non-price regulated" companies in his analysis despite the fact they are not comparable in total risk to water utilities because they are significantly riskier than the 6 water utilities. (Tr. p. 672.5, ll. 4-11).³ According to witness Rothschild, witness D'Ascendis' cost of equity recommendation would be 9.8%-10.3%, if based on the 6 water companies exclusively. (Tr. p. 672.5, ll. 12-13).

To propose his recommendation, witness Rothschild applied the following three models to a proxy group of 6 publicly traded water companies ("Water Proxy Group"): Constant Growth DCF; Non-Constant Growth DCF Model; and CAPM. (Tr. p. 672.7, ll. 4-8). Witness Rothschild determined that the cost of equity for the average company in the Water Proxy Group is 8.75%, and he recommended a 8.65% cost of equity for Blue Granite because it has less financial risk than

² As noted previously, witness D'Ascendis adjusted his recommended downward in his rebuttal testimony. (Tr. p. 548.4, ll. 4-9).

³ Witness Rothschild asserted that because the non-price regulated utilities utilized by witness D'Ascendis are not comparable in risk to Blue Granite, witness D'Ascendis should not have used them. (Rothschild Direct, p. 52, ll. 1-2).

the companies in his Water Group because it has more equity in its capital structure. (Tr. p. 672.8, ll. 5-8).

Regarding the differences between his recommendation and that of witness D'Ascendis, witness Rothschild testified that the following two components led to different cost of equity recommendations:

1. Witness D'Ascendis cost of equity recommendation (10.20% – 10.70%) is based, in part, on the results of applying his cost of equity models to non-utility companies (14 Non-Price Regulated Companies).
2. Witness D'Ascendis concludes that investors expect stock returns over bonds (risk premium) will be 10.03%. I calculated a risk premium of 9%.

(Tr. p. 672.10, ll. 3-11).

Witness Rothschild testified that the current capital markets indicate that an 8.65% return on equity for investing in a regulated utility company is sufficient to raise capital. (Tr. p. 672.13, ll. 16-17).

The recommended rates resulting from witness Rothschild's use of the constant DCF method is a cost of equity range of between 8.34% and 8.76% for the Water Proxy Group. (Tr. p. 672.26, l. 22, p. 25, l. 1). The results of witness Rothschild's non-constant DCF method indicates a cost of equity of between 5.72% and 6.96% for the Water Proxy Group and he concluded that an 8.75% cost of equity for the Water Proxy Group is conservatively high. (Tr. p. 672.27, ll. 1-5). Witness Rothschild recommended an 8.65% cost of equity for Blue Granite because, based on its requested capital structure, it has slightly less financial risk than my Water Proxy Group. (Tr. p. 672.27, ll. 5-6).

The recommended rates resulting from witness Rothschild's use of the CAPM analysis are:

Capital Asset Pricing Modal-Indicated Cost of Equity				
	3-Month Treasury Bill		30-Year Treasury Bond	
	Hybrid Beta	Forward Beta	Hybrid Beta	Forward Beta
Risk Free Rates	1.55%	1.55%	2.39%	2.39%
Beta	0.69	0.89	0.69	0.89
Risk Premium	9.00%	9.00%	8.16%	8.16%
CAPM	7.76%	9.59%	8.02%	9.68%

(Tr. p. 672.51, l. 10).

Witness Rothschild expressed concerns regarding the proxy group utilized by witness D'Ascendis. Witness Rothschild testified that he found several problems with witness D'Ascendis' approach, which he believes results in a proxy group with a significantly different level of total risk than that of the Utility Proxy Group used by witness D'Ascendis. (Tr. p. 672.55, ll. 4-6). Witness Rothschild testified that he could not reproduce witness D'Ascendis' calculations of the "Residual Standard Error of the Regression" and the "Standard Deviation of Beta" for each reported company in his Schedule DWD-6, Pages 2 and 3; the Beta range used by witness D'Ascendis is too wide as such to include companies with appropriately comparable risk profiles and it would result in a selection of 263 companies; it seems like witness D'Ascendis chose a methodology that fails to result in an impartial selection of companies such that an appropriate Beta is utilized for analysis of his non-price regulated companies.⁴ (Tr. p. 672.55, ll. 8-22, p. 56, ll. 1-12).

⁴ See Tr. p. 672.56, ll. 3-12, where he states, "[i]t is not clear exactly how Mr. D'Ascendis reduces the number of companies from 263 to 14, but what is clear is that 12 out of the 14 companies in the final selection have betas (both adjusted and unadjusted) above the average beta for the Utility Proxy Group. The two that have betas below the average have betas very close to the average. The result is that the average beta for the Non-Price Regulated Companies is 0.12 higher than the average beta for the Utility Proxy Group, implying a significant difference in the risk profile

Regarding witness D'Ascendis' use of an adjustment to compensate for Blue Granite's smaller size, witness Rothschild testified that there is not agreement that smaller companies have a higher cost of equity. (Tr. p. 672.74, ll. 1-3). According to witness Rothschild, the idea of a "small firm" upward cost of equity adjustment was most likely supported by "data mining." (Tr. p. 672.74, ll. 3-4). In quoting Professor Aswath Damodaran, who wrote *The Principles of Corporate Finance*, witness Rothschild testified that, "[e]ven if you believe that small cap companies are more exposed to market risk than large cap ones, this is an extremely sloppy and lazy way of dealing with that risk, since risk ultimately has to come from something fundamental (and size is not a fundamental factor)." (Tr. p. 672.74, ll. 7-10, citing Aswath Damodaran, *Equity Risk Premiums (ERP): Determinates, Estimation and Implications – The 2015 Edition* (paper updated, March 2015). Page 42.) Witness Rothschild also testified that Blue Granite's cost of capital has actually decreased as a result of the its recent reorganization, which gave it access to additional resources. (Tr. p. 672.74, ll. 12-16).

Commission's Finding

In *Bluefield*, the Supreme Court of the United States outlined the constitutional standards for determining an appropriate rate of return. In *Hope*, the Court reaffirmed these principles. These decisions hold that (1) a regulated public utility is entitled to rates that allow it the opportunity to earn a return on its invested capital that is equal to that being made at the same time and in the same general part of the country of other investments in business undertakings with similar risks and uncertainties, (2) the return should be such as to assure confidence in the financial soundness of the utility and adequate, under efficient and economic management, to maintain and support its

of the two groups. An impartial methodology applied on such a large sample group should result in a comparable group with an average beta closer to the average of the Utility Proxy Group."

credit and enable it to raise money necessary for proper discharge of its duties, (3) the utility has no entitlement to the kinds of profits that may be realized in highly profitably enterprises.

The Commission is the fact finder in rate proceedings and must balance the interests of the using and consuming public with that of the utility appearing before it. Additionally, this Order must be based upon substantial evidence in the whole record. As a result, this Commission is bound by the parameters of evidence put forth by the parties, and it hereby carefully evaluates the evidence submitted in this case as to what ROE Blue Granite should be authorized the opportunity to earn.

In this case, Blue Granite witness D'Ascendis initially recommended that Blue Granite be entitled to earn a ROE in the range of 10.2% to 10.7%; however, witness D'Ascendis later updated his analysis to "reflect current investor expectations," and reduced his recommended ROE range to 9.75% to 10.25%. (Tr. p. 548.5, ll. 11-12, p. 548.4, ll. 7-9, 547.4, ll. 9-12). Witness Parcell recommends an ROE range of 8.90% to 10.0% with a mid-point of 9.45%. (Tr. p. 1004.4, ll. 3-4). While witness Rothschild recommends a cost of equity of 8.65% be adopted for Blue Granite. (Tr. p. 672.6, l. 6).

In evaluating an appropriate ROE, the Commission must not base the approved ROE on a comparative analysis; however, it may look at businesses in this part of the country with similar risks and uncertainties as those that attend Blue Granite. It is clear the cost of common equity nationally is on the decline. ORS witness Parcell testified that over the past several months capital costs have declined.⁵ (Tr. p. 1005.2, ll. 15-16). Additionally, witness D'Ascendis'

⁵ According to witness Parcell, regulatory agencies throughout the U.S. have recognized the decline in capital costs by authorizing lower ROEs for regulated utilities in each of the last several years. (Tr. p. 1004.12, ll. 9-10, citing Regulatory Research Associates, "Regulatory Focus," April 11, 2019). Additionally, witness Parcell testified that his CAPM results "are indicative of the recent and continuing decline in utility costs of capital, including cost of equity." (Tr. p. 1004. 38, ll. 10-12).

recommendation supports this in that over a relatively brief period he updated his ROE recommendation by reducing the minimum value of his range by 45 basis points. When asked by Commissioner Whitfield whether there was a downward trend in investor expectation of “similarly situated utilities,” witness D’Ascendis responded, “[y]es.” (Tr. p. 609, l. 1).

While it may be the case that determining a proper ROE is both an art and a science and requires a degree of subjectivity, there is evidence in the record that supports the contention that witness D’Ascendis’ ROE recommendations are consistently inflated. (Tr. p. 620, ll. 11-18). Witness D’Ascendis has testified in 44 cases over the past 10 years. (Tr. p. 599, ll. 24-25, p. 600, l. 1). With the exception of one time, no Commission has accepted his ROE recommendation. (Tr. p. 600, ll. 14-19). In fact, the minimum value of this ROE range has exceeded the final value awarded by every state commission before which he testified. (Tr. p. 602, ll. 17-23).

Regarding witness D’Ascendis’ use of earnings per share growth in his DCF model, witness Rothschild testified that adding earnings per share growth forecasts to a dividend yield without considering the retention rates produces a flawed result because on average analysts’ forecasts have been “almost 100 percent too high.” (Tr. p. 683.6, l. 19, p. 683.7, ll. 1-6).

Additionally, witness Parcell testified that several of the assumptions in witness D’Ascendis’ ROE analyses in the prior proceeding have been demonstrated to over-state capital costs. (Tr. p. 1005.14, ll. 13-14). Witness Parcell testified that,

the assumptions inherent in witness D’Ascendis ROE analyses in 8 Docket No. 2017-292-WS are demonstrated to have significantly over-stated the level of interest rates and, thus, over-states the required ROE for BGWC.

(Tr. p. 1005.15, ll. 7-9).

The Commission also considers the relative risk of Blue Granite. All three cost of capital witnesses utilize methodologies to quantify the riskiness of Blue Granite. According to witness

Rothschild, and contrary to witness D’Ascendis’ assertions, Blue Granite’s recent reorganization should serve to actually reduce risk, and the upward “small-size” adjustment of 50 basis points made by witness D’Ascendis, is inappropriate. (Tr. p. 672.74, ll. 14-16).⁶ It is also clear that witness D’Ascendis’ manner in determining the business risk adjustment was arbitrary. According to witness D’Ascendis, “[e]ven though a 4.37% upward size adjustment is indicated, [witness D’Ascendis] applied a business risk premium of 0.50% to BGWC’s indicated common equity cost rate.”

Additionally, witness D’Ascendis relied upon a non-price regulated proxy group in determining his ROE recommendation, over which both witnesses Parcell and Rothschild expressed concern. It is clear to this Commission and from the evidence in the record that non-price regulated entities face different risk and operational characteristics than do regulated utilities.⁷

Finally, “‘quality of service’ is a long-established element of what this Commission must consider in arriving at just and reasonable rates for the Company.” *See* Order No. 2008-96, citing Patton v. Public Service Comm’n, 280 S.C. 288, 312 S.E.2d 257, in which the Court upheld the Commission’s ability to “[examine] the relationship between the Company’s expenses, revenues and investment in an historic test period as well as the *quality of service provided* to its customers,” in determining a just and reasonable operating margin.” Emphasis added. This Commission held six separate night hearing in this docket in which customers of Blue Granite provided testimony

⁶ Witness Parcell also testified that the because Blue Granite is not publicly traded and does not access equity markets for new common equity, the perceived small size of Blue Granite should not be considered in establishing the cost of equity. (Tr. p. 1005.13, ll. 6-9).

⁷ *See* testimony of witness Parcell in which he states, “[i]t is not proper to use non-regulated firms in the manner Mr. D’Ascendis proposes. This is the case since unregulated enterprises face different risk and operational characteristics than do utilities. (Tr. p. 1004.44, ll. 15-18).

and evidence that this Commission could consider when setting rates. The public overwhelmingly provided evidence of the relatively expensive water and wastewater bills, incorrect billings, incorrect service terminations, and other service quality issues.⁸

According to witness Denton, based on the state of Blue Granite as he found it, “there were some deficiencies within the operations of [Blue Granite.]” (Tr. p. 440, ll. 19-20). When asked about quality issues that Blue Granite has had in the past, witness Mendenhall only testified that mistakes happen and will continue to happen. (Tr. p. 413, ll. 12-25, p. 414, ll. 1-6). According to witness Mendenhall, it’s the follow-up with customers after the mistake occurs that really matters. (Tr. p. 414, ll. 6-10). Unfortunately, the record indicates that Blue Granite has not only made many mistakes, but it has also failed to communicate with its customers in an effective or appropriate manner.

While witness D’Ascendis testified that, “for regulated public utilities, regulation must act as a substitute for marketplace competition,” case law holds that a public utility is only entitled to a fair return and has no entitlement or constitutional right to earn profits comparable with highly profitable enterprises or speculative ventures. (Tr. p. 547.7, ll. 4-6 (citing *Bluefield*, 262 U.S. at 690)). According to witness Parcell, “a fair rate of return is normally interpreted to mean that an efficient and economically-managed utility will be able to maintain its financial integrity, attract

⁸ Some examples to illustrate. In discussing Carolina Water Service, Inc., which was Blue Granite before the name change, a public witness, Mr. Headley stated, “I’ve had to call them a couple of times when they were Carolina Water. And I’ve left a couple messages on a couple of different occasions. I never heard back, which is I think a lot of people’s complaint.” (Tr. p. 23, ll. 10-13). See Also, in discussing water-quality issues, witness Gordon stated he had taste and smell issues and a company representative did not come out to investigate for over a month because of a “backlog.” (Tr. p. 97, ll. 5-18). Witness Gordon also discussed how he is frequently “double-billed” because Blue Granite fails to properly bill monthly and that the issue was so bad it became the “norm.” (Tr. p. 98, ll. 7-25, p. 99, ll. 1-9). According to witness Olawsky, there is a constant smell of the water and customer service is “nonexistent.” (Tr. p. 40, ll. 14-20). Witness Olawsky also testified that he has caught Blue Granite’s meter reader sleeping in this truck “five or six times” and that it had been months since some of the meters had been read (Tr. p. 40, l. 25, p. 41, ll. 1-8). Other customers across Blue Granite’s service footprint testified to similar issues.

capital, and establish comparable returns for similar risk investments.” (Tr. p. 1004.5, ll. 17-19). Additionally, it is clear that this Commission may take into consideration the quality of service performed by the utility.

Testimony and supporting materials submitted to the Commission in this proceeding confirms a decline in ROEs. Additionally, the law in South Carolina is that when determining just and reasonable rates, it is the result reached and not the method employed that is controlling.⁹ It is clear from this evidence in the record and the facts detailed above that both the quantitative and qualitative data presented by witnesses leads this Commission to conclude that witness D’Ascendis’ ROE recommendation is inflated. Additionally, we find the arbitrary nature of witness D’Ascendis’ determination of a business risk premium for Blue Granite to be inappropriate.¹⁰ Therefore, after consideration of the substantial evidence on the whole record, the Commission concludes that it is neither reasonable nor a fair balancing of the interests of Blue Granite and its customers to approve an ROE between of 9.75% and 10.25%.¹¹

Both ORS witness Parcell and CA witness Rothschild presented ROE recommendations to be awarded to Blue Granite that comply with the requirements set forth in *Hope* and *Bluefield*. In considering the quality of service issues known to exist with Blue Granite and the setting of just and reasonable rates, this Commission concludes that the midpoint of witness Rothschild’s recommended ROE, 8.65%, and the top value of witness Parcell’s range, 10.0%, constitutes the appropriate ROE range for Blue Granite. We conclude that the midpoint of that range,

⁹ See *So. Bell*, 270 S.C. 590.

¹⁰ This Commission is also cognizant of the testimony from witness Parcell that indicated that certain proposals from witness D’Ascendis amount to “reprice[ing]” stock values, and witness Rothschild indicated that witness D’Ascendis’ small firm upward cot of equity adjustment most was most likely supported by “data mining.” (Tr. p. 1005.3, ll. 7-13; Rothschild Direct, p. 72, ll. 3-4). This Commission does not support a results-oriented recommendation.

¹¹ The Commission believes that witness D’Ascendis’ use of a 50-basis point addition to compensate for the size of Blue Granite is inappropriate for the reasons articulated by witnesses Parcell and Rothschild.

approximately 9.33%, is the appropriate ROE for Blue Granite and is both objectively just and reasonable and supported by the evidence on the whole record. This ROE takes into account ROEs approved for entities with similar risks as those that attend Blue Granite in the same area while assuring the financial soundness of Blue Granite. Additionally, 9.33% is both objectively just and reasonable and supported by the evidence on the whole record.

2. Cost of Debt

In determining the cost of debt, witnesses Parcell, D'Ascendis, and Rothschild all utilized 5.73%, which reflects the actual cost of debt for Blue Granite. (Tr. p. 1004.19, ll. 3-5; p. 547.4, ll. 9-12; p. 672.4, l. 20). The reliable and probative substantial evidence in the record supports a finding that Blue Granite's cost of debt is 5.73% for this proceeding.

3. Capital Structure

Regarding the Company's capital structure of Blue Granite, witnesses Parcell, D'Ascendis, and Rothschild all employed the capital structure as proposed by Blue Granite of 47.09% debt and 52.91% common equity. (Tr. p. 1004.3, ll. 7-10; p. 547.12, l. 8-14; p. 672.4, l. 19). The evidence in the record supports a finding that Blue Granite's capital structure ratio utilized to determine rates should be 52.91% equity and 47.09% debt.

B. Depreciation Rates

The Company requests an annual depreciation accrual of \$3,499,004 based on new depreciation studies calculated through December 31, 2018. (*See* Tr. p. 1054.5 at Figure 1; *see also* Hr'g Ex. 15 at Spanos Direct Ex. 1 at VI-4 and Spanos Direct Ex. 2 at VI-5.) Blue Granite has not previously conducted any depreciation studies nor updated its depreciation rates since they were established "approximately 35 years ago." (Tr. p. 763.8 ll. 17.) ORS witness David J. Garrett reviewed the Company's proposed depreciation rates and proposes an annual reduction to the

Company's proposed depreciation accrual of approximately \$760,236 calculated as of December 31, 2018. (Tr. p. 1054.5 ll. 10-12.)

The change in depreciation expense is primarily driven by to two factors. (*See* Tr. p. 537.5; *see also* Tr. p. 1054.11.) First is an overall decrease in the estimated service lives of the Company's water and wastewater assets. The Company's existing 1.5% depreciation rate was based on a composite average service life of approximately 66.67 years for all assets, which was reached as the result of a stipulation and not based on a depreciation study. (Tr. p. 538.5 ll. 13-15; Tr. p. 763.8; *see also* Application Ex. G.) The average service life for most assets in most accounts is shorter based on the data and studies presented by the Company. (Tr. p. 1055.2) Second, the Company's existing depreciation rates do not factor in a "net salvage value" of the Company's water and wastewater assets. Net salvage value is the cost of removing an asset that has reached the end of its useful life net of the salvage value of that removed asset. (Tr. p. 537.9 ll.4-5.) Typically, net salvage values are negative, and represent an additional cost that will be incurred when an asset reaches the end of its useful life. The Company's new proposed rates include "a cost of removal component to various depreciation rates to accommodate decommissioning and other removal costs related to asset retirements" causing the annual depreciation expense to increase. (Tr. p. 763.8 ll. 3-5.)

1. Legal Standard

"A depreciation rate is a percentage figure arrived at by estimating the life" of a capital asset "and transforming this into an annual figure based upon costs" and considering "both the physical life and the useful life of the property[.]" *Hamm v. SC PSC*, 294 S.C. 320, 325-26 (1988) (citing *Parker v. SC PSC*, 281 S.C. 215, 217 (1984)) (internal punctuation omitted). "Established

accounting principles require depreciation to be taken on plant that is [in service] and subject to wear and tear.” *Id.* at 326 (citing *Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 167 (1934)).

The annual depreciation expense “is a bookkeeping device introduced in the exercise of practical judgment to serve three purposes. It preserves the integrity of the investment. . . . It serves to distribute equitably throughout the several years of service life the only expense of plant retirement which is capable of reasonable ascertainment - the known cost less the estimated salvage value. And it enables those interested, through applying that plan of distribution to ascertain as nearly as is possible, the actual financial results of the year’s operation.” Order No. 90-571 (SC PSC June 4, 1990) (quoting *United R. & Electric Co. of Baltimore v. West*, 280 U.S. 234, 262 (1930)).

“[T]he company has the burden of making a convincing showing that the amounts it has charged to operating expenses for depreciation have not been excessive.” *Lindheimer*, 292 U.S. at 167; *S.C. Cable Television Ass’n v. So. Bell Tele. Co.*, 308 S.C. 216 (1992) (“the PSC did not impermissibly shift the burden of proof [regarding depreciation rates] from Southern Bell to SCCTA.”); Order No. 1987-557 (SC PSC May 29, 1987) (“The Company, having failed to sustain its burden of proof . . . is not entitled to change its . . . depreciation rates.”) Useful life estimates are estimates and “are by their very nature inexact.” Order No. No. 89-481-C, 1990 WL 10700975 (SC PSC June 4, 1990).

This Commission sits as the trier of facts, akin to a jury of experts. *Hamm v. SC PSC*, 309 S.C. 282, 422 S.E. 2d 110 (1992). “As in the setting of rates of return, it is difficult, if not impossible, to state with absolute certainty that . . . a specific depreciation life estimate is absolutely accurate.” *Id.* The weight and credibility assigned to evidence presented is peculiarly within the province of the Commission. *S.C. Cable Television*, 308 S.C. 216, 417 S. E. 2d 586. In general, a

trier of fact is not compelled to accept an expert's opinion, but may give it the weight he determines it deserves. *Florence County D.S.S. v. Ward*, 310 S.C. 69, 425 S.E.2d 61 (Ct. App. 1992); *see also State v. Poindexter*, 314 S.C. 490, 431 S.E.2d 254 (1993) (jury free to rely on circumstantial evidence in contradiction of expert's opinion). It is within the trier's discretion as to how much weight to give the expert's testimony. *See S.C. Cable Television*, 308 S.C. 216, 417 S.E.2d 586 (fact finder has discretion to believe one expert over another); *see also Poindexter*, 314 S.C. at 431; *Doe by Doe v. Greenville Hosp. Sys.*, 323 S.C. 33, 448 S.E.2d 564 (Ct. App. 1994) (jury considers weight to be given testimony).

2. Service Life Estimates

Company witness Spanos provided the results of his depreciation studies for water and wastewater plant as exhibits 1 and 2 to his direct testimony. ORS witness Garrett proposes different estimated useful lives for 19 accounts.

a) *Background*

Generally, witnesses Spanos and Garrett agree on the mechanics of the curve fitting process. To estimate service lives, both ORS and the Company employed the retirement rate method. (Tr. p. 1051; Tr. p. 533.) Under the retirement rate method, each expert used the aged property data provided by the Company to create an observed life table ("OLT") for each account. From the OLT table, an OLT curve is derived, and that curve is "fitted and smoothed with a complete curve in order to determine the ultimate average life of the group." (Tr. pp. 1054.12 to .13.) This process is called curve fitting. Both ORS and the Company used "Iowa curves" for the curve fitting process. (Tr. p. 1054.13 ll. 2-4.) The curve-fitting process involves selecting the best Iowa curve to fit the OLT curve. This can be accomplished through a combination of visual and

mathematical curve-fitting techniques, as well as professional judgment. (Tr. p. 1054.13 ll. 10-20; *accord* Tr. pp. 537.7 to .8).

There are also differences between the approaches taken by witnesses Garrett and Spanos. These differences help to explain their differing service life estimates.

The Company

Witness Spanos testifies that many of witness Garrett's recommendations are not reasonable because he "does not give proper consideration to the mortality characteristics of the assets or to other key factors such as informed judgment and understanding of the nature of the assets in each account[.]" (Tr. p. 538.11 ll. 6-7.) Witness Spanos places a greater emphasis on the application of informed judgment to developing useful life assets than witness Garrett. Witness Spanos asserts that "Mr. Garrett's overall approach differs from mine" and is inconsistent with "the correct and proper approach" established in authoritative depreciation texts which "are clear that estimating service lives must include a subjective component." (Tr. p. 538.11, .13.) In witness Spanos's estimation, witness Garrett has not incorporated these subjective factors into his recommendations "to the degree necessary to develop a reasonable forecast." (Tr. p. 538.15.)

Witness Spanos offers that the curve fitting process must also incorporate informed judgment, and not purely mathematics. (Tr. p. 538.16.) Along these lines, visual curve fitting has advantages that mathematical curve fitting lacks by allowing analysts to emphasize and de-emphasize data and to identify data irregularities. (See Tr. p. 538.18) Mathematical curve fitting also carries risks, primarily of introducing biases by treating less-relevant data equally with more relevant data without offering "a good way to de-emphasize data irregularities . . . other than to exclude older data points entirely." (Tr. pp. 538.18 to .19.) Additionally, where mathematical curve fitting introduces biases, it can "amplify less meaningful deviations," particularly "towards the end

or ‘tail’ of the curve” where data irregularities are “often common[.]” (Tr. p. 538.19.) Thus, “if proper care is not taken mathematical curve fitting can mislead the analyst[.]” (Tr. p. 538.19.)

Witness Spanos recommends the use of both visual and mathematical curve fitting. (Tr. p. 538.20.) He also offers that judgment can and should be applied in mathematical analysis as well, by considering limitations and trends in the data, interpreting data irregularities, and considering how the curve fitting results fit with the type of assets studied. (Tr. p. 538.20.) Judgment is necessary when evaluating the statistical analysis and must be exercised throughout the process to determine the most appropriate and reasonable estimate. (Tr. pp. 538.20, .21.)

ORS

Witness Garrett testified that for each of the accounts to which he proposed adjustments, the Company’s proposed average service life, as estimated through an Iowa curve, is too short to provide the most reasonable mortality characteristics of the account. Generally, for the accounts in which witness Garrett proposes a longer service life, witness Garrett’s proposal is based on the objective approach of choosing an Iowa curve that provides a better mathematical fit to the observed historical retirement pattern derived from the Company’s plant data.

Witness Garrett obtained and reviewed the same historical property data Blue Granite used to conduct its depreciation studies. (Tr. p. 1054.11.) Based on his review of that data, the Company’s depreciation studies, and other information obtained through discovery such as site visit notes, witness Garrett testified that witness Spanos did not “present any convincing evidence outside of the statistics” to support the Company’s proposed service lives, but relied “primarily on [] historical retirement data.” (Tr. p. 1054.16, ll. 21-23; Tr. p.1055.4 ll.7-8; Tr. pp. 1064-65.) Witness Garrett testified that the service life data provided by the Company was adequate for statistical purposes. (See Tr. p. 1059 ll. 19-22; see also Tr. pp. 1054.16 to .17.)

Witness Garrett also testified to his method for selecting his Iowa curve for each account. Witness Garrett first “visually inspect[ed] the OLT curve for any irregularities” in order to assess data reliability. (Tr. p. 1054.14.) This step also involves the application of professional judgment, such as considering the estimated life produced by the Iowa curve against observed actual lives in the industry. (*See* Tr. pp. 1055.6 to .7.) After visual inspection, witness Garrett employed mathematical curve-fitting, “measuring the distance between the OLT curve and the selected Iowa curve to get an objective, mathematical assessment of . . . fit.” (Tr. p. 1054.14.) He repeated this process if necessary until he had determined “the most reasonable Iowa curve[.]” (Tr. p. 1054.14.)

Witness Garrett did not agree with witness Spanos’s characterization of his approach as strictly mathematical and testified that his approach “is in conformance with authoritative depreciation tests, including the NARUC manual.” (Tr. pp. 1055.6 to .7.) While witness Garrett may more often “select the best mathematically fitting curve,” he does not do so “before incorporating visual curve fitting techniques and professional judgment.” (Tr. p. 1055.6 ll. 5-7.) Witness Garrett offers that he “gives more weight to the objective [*i.e.* mathematical] analysis” than witness Spanos, and that the differences in their approaches to estimating service lives is “a question of . . . degrees.” (Tr. p. 1055.7 ll. 15-17.) Given that the Company provided relatively good data for estimating service lives, and the fact that this is an evidentiary proceeding, witness Garrett recommends a more objective approach as more appropriate. (*See* Tr. 1059-60.) Witness Garrett testified that “each of the Iowa curves [he] proposed in the accounts at issue are more supported by the objective evidence than” the Company’s proposed curves. (Tr. p. 1055.8 ll. 2-4.)

Witness Garrett also raised regulatory policy considerations relating to depreciation relating to the economic incentives regulated utilities face and customer impact. If assets are depreciated too quickly, “it could encourage economic waste through unnecessary [utility]

investments to increase rate base.” (Tr. p. 1057.) While this is a risk to the customer of over-depreciation, if depreciation rates are set too low “there are regulatory mechanisms . . . to make sure that the company is made whole[.]” (Tr. pp. 1056-57.) Accordingly, while regulators should strive “to hit the nail on the head [] and depreciate an asset over its exact service life, . . . it’s a good policy to be conservative with depreciation rates.” (Tr. p. 1057.)

b) Estimated Useful Life Recommendations – By Account

ORS witness Garrett proposes changes to 19 of the mass property account service life recommendations offered by the Company. Some of these accounts were assumed by the Company to have the same life characteristics, and ORS accepted this assumption. Accordingly, the same Iowa curve is used to calculate the remaining life for these accounts. (*See* Tr. p. 1054.17 n. 16.) These accounts were grouped together by the parties’ testimony and we consider the accounts as grouped by the parties below.

(1) Accounts 1050, 1055, 1060 and 1065 - Structures & Improvements

According to Company witness Spanos, his survivor curve “better recognizes the increasing patterns of retirements from ages 30 to 40 in the historical data” while witness Garrett inappropriately “rel[ied] on all the data points from the OLT curve when choosing his estimates for this account” (Tr. p. 538.22 ll. 6-11, p. 538.23 ll. 4-5). Company witness Spanos asserts he appropriately included fewer data points because “the data points beyond age 40 begin to level out and ‘tail’ off.” (Tr. p. 538.23 l. 10.) Based on this tailing off, witness Spanos infers “the data for these ages is less reliable than the data for earlier ages and thus should not be considered[.]” (Tr. p. 538.24 ll. 1-2.) Because witness Garrett’s “mathematical calculation includes [these] unreliable data points,” witness Spanos asserts that the Company’s proposal “is the more appropriate estimate for this account.” (Tr. p. 538.24 ll. 4-7.)

Witness Garrett asserts that he assessed the reliability of the data as a part of his analysis. (See Tr. p. 1055.5 ll. 9-11, p. 1055.6 ll. 4-7; Tr. p. 1054.14.) Additionally, witness Garrett testified that based on his review “Spanos did not present any convincing evidence outside of the statistics[.]” (See Tr. p. 1055.4 ll. 7-8.) Witness Garrett testified he “use[d] mathematical calculations to determine which Iowa curve provides the closest fit to the observed data[.]” (Tr. p. 1054.18 ll. 5-6.) Witness Garrett testified that that the Iowa curves he and witness Spanos offer for these accounts each “appear to provide relatively close fits to the majority of the OLT curve.” (Tr. p. 1054.18 ll. 4-5.) Witness Garrett testified that mathematical curve fitting can be especially useful “in cases where it is not obvious from a visual standpoint which curve provides the better fit[.]” (See Tr. p. 1054.19 ll. 1-2.) Witness Garrett testified that, according to his mathematical analysis of the relevant data points, the Iowa Curve that he proposed provides the better mathematical fit to “the relevant portion of the OLT curve[.]” (Tr. p. 1054.18 ll. 8-9.)

It appears to us that the experts disagree over the best interpretation of the data. Because we conclude that witness Garrett performed a credible, thorough analysis, we also conclude that the Company has not met its burden to establish its estimated service life for the accounts. Witness Garrett’s decision to rely on more data appears to us to be reasonable. While we do not need to go so far as to say that witness Spanos’ recommendation is unreasonable, the Company bears the burden of proof in this matter. Additionally, from a regulatory policy perspective, witness Garrett’s recommendation provides superior rate mitigation and avoids the risks to ratepayers created when a utility recovers capital costs too quickly.

(2) Account 1080 – Wells and Springs

As with Accounts 1050 to 1065 above, witness Spanos asserts that “Mr. Garrett has based his recommendation entirely on mathematically curve fitting results which do not exclude portions

of the OLT curve that are less meaningful.” (Tr. p. 538.24 ll. 18-19.) Witness Spanos offers that because “Account 1080 begins to flatten out around age 44” that points after age 44 “should not be given the same consideration as the data points prior to age 44.” (Tr. p. 538.24 l. 21, p. 538.25 ll. 1-2.) Witness Spanos also offers that no retirements take place after age 44 and that witness Garrett’s recommendation is “at the upper range of industry estimates” and 10 to 15 years higher than the most frequent industry estimates. (Tr. p. 538.24 ll. 21-22, p. 25 ll. 11-13.) Witness Spanos also offers that his recommended curve provides a better fit for selected portions of the data. (Tr. p. 538.25 ll. 2-5.)

Again, witness Garrett asserts that he has assessed the reliability of the data as a part of his analysis, which includes considering whether a “flattening” is significant, and he applied his informed judgment to consider factors such as observed service lives in the industry. (*See* Tr. p. 1055.5 ll. 9-11, p. 1055.6 ll. 4-7.) Based on his assessment, witness Garrett testifies that witness Spanos’s proposed curve “does not provide a good fit to significant portions of the OLT curve in later portions of the OLT curve.” (*See* Tr. p. 1054.20 ll. 5-7.) Witness Garrett testifies that his curve provides the better mathematical fit. (Tr. p. 1054.21 ll. 4-5.)

The experts disagree over the relative relevance of different sections of the OLT curve. We note that witness Garrett’s recommendation, while remaining consistent with overall observations in the industry, places the greatest weight on what has actually been observed by the Company as reflected through its data and measured mathematically. Additionally, if witness Spanos’s criticisms of the relevance of the data are invalid, the intended criticisms actually *reflect* the trend that witness Garrett has identified through his analysis, further bolstering witness Garrett’s case.¹²

¹² For instance, witness Spanos notes there are no retirements after age 44.5. But reviewing the data, there are multiple multi-year intervals with zero retirements, and a number of years with small retirements (for example age

Given that the Company bears the burden, we believe this consideration weighs against it, especially in light of the credibility we assign to witness Garrett and his analysis.

We also note witness Spanos's testimony that Account 1080 was one of the curves for which "information external to the statistics led to no significant departure from the indicated survivor curve" and for which "the statistical analyses resulted in good to excellent indications of significant survivor patterns[.]" (Hr'g Ex. 15 at Spanos Direct Ex. 1 at III-3.) We believe this supports witness Garrett's use of a more objective analysis for this account.

While we do not believe that witness Spanos' position is necessarily unreasonable, we believe witness Garrett has testified credibly. We conclude that the Company has not carried its burden of proof to establish its proposed service life for this account.

(3) Account 1115 – Water Treatment Equipment

Visually, ORS witness Garrett asserts that his proposed Iowa Curve and witness Spanos's Iowa curve "appear to provide reasonable fits to the OLT curve up to age 20." (Tr. p. 1054.22 ll. 4-5.) Thereafter, however, the curves diverge because "Mr. Spanos appears to ignore statistically relevant data points past the age of 30." (Tr. p. 1054.22, l. 6.) Witness Garrett's curve provides a better mathematical fit to the OLT curve than witness Spanos' curve. (Tr. p. 1054.22 l. 11.)

Witness Spanos asserts that witness Garrett "disregards visual curve fitting and the subjective portion of life analysis" for this account. (Tr. p. 538.27.) Witness Spanos testifies that the "survivor curve proposed by the company is the superior fit to the data points through about age 30." (Tr. p. 538.27 ll. 11-12.) "This portion of the OLT curve is far more relevant" because

intervals 5.5-6.5 and 38.5-39.5 recorded retirements of less than \$300). (See Hr'g Ex. 31 at DJG-17 pp. 4-5.) Viewing witness Garrett's curve against the observed data, and how it intersects with the data at the end of the curve, we believe it is reasonable to conclude that that data actually reflects the trend identified by witness Garrett, rather than being simply anomalous, as proposed by witness Spanos. We believe this example also highlights how complicated and multifactorial the recommendations offered by depreciation experts can be.

the data for older ages is less reliable based on “the leveling out of the data”, the fact that there are no recorded retirements beyond age 30, and the general trend through age 30 of a decreasing percent of assets surviving. (Tr. p. 538.27.)

Again, we conclude the Company has not carried its burden. The experts simply disagree. Witness Garrett’s position is consistent with his reasoning for other accounts. Garrett and Spanos disagree over whether the data at post-30 age intervals is reliable. Witnesses Garrett and Spanos’s proposed curves both clearly reflect the trend of decreasing percent of assets surviving—witness Garrett’s just does so less sharply on the basis that the data after age 30 is reliable. We reject witness Spanos’s contention that there are no recorded retirements beyond age 30, as a review of the retirement data shows otherwise. (See Hr’g Ex. 31 at DJG-17 pp. 7-8 (column “\$ Retired During The Age Interval”)). Witness Spanos’s other two arguments against the reliability of the post-30 data—that it defies the pre-30 trend and that it flattens out—carry weight in an inverse proportion to the credibility that we assign to witness Garrett’s conclusions from his review of the reliability of the data.

Garrett testified that the first step in his analysis is “visually inspecting the OLT curve for any irregularities.” (Tr. p. 1054.14 ll. 1-2.) Garrett specifically notes that “the ‘tail end’ of the OLT curve may often have less analytical value than other portions of the curve.” (Tr. p. 1054.14 l. 23.) Garrett focuses on “the size of the exposures” for tail-end data points when determining the weight to allocate to those data points. (See Tr. p. 1054.15 ll. 2-3.) Garrett “not only considered the entirety of the OLT curve, but also conducted further analyses that involved fitting Iowa curves to the most significant part of the OLT curve for certain accounts.” (Tr. p. 1054.15 ll. 6-8.) We find witness Garrett’s testimony on his assessment of data reliability in connection with his selection of his Iowa curve is credible and convincing.

Accordingly, we believe that witness Garrett's primary reliance on the mathematics is justified with respect to this account. We are bolstered in this conclusion by witness Spanos's testimony that this was one of the accounts for which the statistical evidence provided "good to excellent indications of significant survivor patterns" and for which "information external to the statistics led to no significant departure from the indicated survivor curve[.]" (Hr'g Ex. 15 at Spano Direct Ex. 1 at III-3.) We understand that useful life estimates, as estimates, "are by their very nature inexact[.]" and that it is difficult, if not impossible, to state with absolute certainty that . . . a specific depreciation life estimate is absolutely accurate." Order No. No. 89-481-C, 1990 WL 10700975 (SC PSC June 4, 1990). We are also mindful that the Company bears the burden of establishing its depreciation expenses and, by extension, the useful life of its assets. For this account, we conclude the Company is entitled an annual depreciation expense up to the level determined in accordance with witness Garrett's recommended useful life estimate.

(4) Account 1120 – Distribution Reservoirs and Standpipes

Witness Garrett testifies that "a visual inspection of the curve shows a sharp drop off in the percent surviving at age 35 . . . from 54.52% to 35.8% in just one age interval." (Tr. p. 1054.24:16-18.) Due to this drop off, witness Garrett recommends that "the tail end of the OLT curve for this account should be truncated at that point for statistical analysis." (Tr. p. 1054.24 ll. 19-20.) Witness Garrett also states that the "1% rule" supports truncation. (*See* Tr. p. 1054.24 ll. 12-14 ("some depreciation analysts, including [witness Garrett], consider truncating the OLT curve at a point where the dollars exposed to retirement are less than 1% of the initial exposures.")) After removing the less relevant portion of the curve for age 34.5 and older, witness Garrett's curve fits better visually and mathematically. (Tr. p. 1054.26 ll. 4-6.) Witness Garrett also assessed the estimated life shown by his curve against the industry-observed lives. (*See* Tr. p. 1055.6 ll. 1-7.)

Witness Spanos recommends his proposed Iowa curve because it “is a good fit for the entire OLT curve” and “is a better fit than Mr. Garrett’s once more of the relevant data points [truncated by witness Garrett] are given proper consideration.” (Tr. p. 538.31.) Witness Spanos notes that, contrary to witness Garrett’s direct testimony, the “1% rule” does not support truncation at 35 years and that given “[t]he life characteristics of the assets contained in this account” the observed approximately 20% drop in one age interval is likely “somewhat common for this account.” (Tr. p. 538.31 ll. 1-6.) Witness Spanos contends that witness Garrett’s truncation judgment represents “a different approach [by witness Garrett] from the accounts discussed previously[.]” (Tr. p. 538.29.) Witness Spanos asserts that witness Garrett fails to discuss “the details of the retirement that took place at this age and why he believes that this specific retirement should not be considered a normal retirement.” (Tr. p. 538.31.)

The difference in the proposed service lives recommended by witnesses Spanos and Garrett comes down to witness Garrett’s decision to truncate data points from age 35 and older. (*See* Tr. p. 538.28 ll. 11-12.) While we note that witness Spanos correctly points out that the 1% rule does not support truncation after age interval 34.5, we find witness Garrett’s argument in support of truncation sufficiently compelling to conclude the Company has not carried its burden to demonstrate its proposed expected life for this account. Witnesses Garrett and Spanos draw different conclusions about what the drop at year 34.5 means about the life characteristics of the assets in this account and the reliability of the data for the age intervals thereafter. Assessment of data irregularities and truncation decisions are potentially very complicated. (*See generally* Tr. pp. 538.19 to .20.) We believe witness Garrett has established that his conclusions are based on a consistent application of a reliable method and that Spanos and Garrett simply disagree over the

application of professional judgment. On this basis, we believe the Company has not met its burden of establishing that its proposed estimated useful life for this account is not excessive.

(5) Account 1125 – Transmission and Distribution Mains

Witness Spanos recommends the R-2-70 Iowa curve. Witness Spanos asserts that witness Garrett's analysis "includes too many data points" and does not properly weight the relative reliability of some of the older and younger data. (Tr. p. 538.32 ll. 6-9.) Witness Spanos also offers that the Company's 70-year proposed service life is a more reasonable estimate than witness Garrett's 95-year estimate because "most of the mains in this account are made of PVC" which mains "typically have a shorter life than their steel or metal counterparts." (Tr. p. 538.33 ll. 3-10.) In response to witness Garrett's testimony that witness Spanos offered a much longer expected life recommendation for this account in a prior case two years before the BGWC study (Tr. p. 1054.28), witness Spanos appears to suggest that the comparison had limited probative value because it was not apples to apples. (*See* Tr. p. 538.32, ll. 10-19.)

Witness Garrett asserts that the Company's proposed curve "appears to ignore statistically relevant data points towards the later portions of the OLT curve." (Tr. p. 1054.28 ll. 1-2.) Witness Garrett testifies that he suspected that data after age 50 may be less reliable based on his application of professional judgment and visual curve fitting techniques followed by further analysis. (Tr. p. 1055.5 l. 11 to p. 1055.6 l. 1.) While witness Garrett does not disagree that the tail of the curve after 50 is less statistically relevant, he asserts that the Company over-discounts the relevance of some of the later data. (Tr. p. 1055.5; Tr. p. 1054.28 ll. 1-2; *see also* Tr. p. 1054.27 at figure 9 (compare the closeness of the fit of the proposed curves to the observed data from about age 15 to 40).) Witness Garrett notes that his recommendation provides a better mathematical fit to the relevant observed data. (Tr. p. 1054.28; Tr. p. 1055.4; *see also* Hr'g Ex. 31 at Ex. DJG-12.)

We conclude the Company has not carried its burden regarding its proposed service life for this account. Witness Garrett explains his process for selecting his curve, which included considering the reliability of the data points in developing his recommendation. We also note Witness Garrett's recommendation appears to fit generally within the industry range for this account, and that industry experience was a factor witness Garrett considered. (See Tr. p. 1055.6 ll. 1-7.) Further, while Witness Spanos offers that "most" of the mains are PVC, he does not offer a more specific proportion of PVC-to-metal in this account or specific estimated life recommendations for PVC pipe versus metal pipe for Blue Granite's system. Additionally, the actual data, after adjustment, appears to better support witness Garrett's conclusion, as does witness Garrett's application of his professional judgment to ensure he did not select an Iowa curve yielding an estimated life out of accordance with the asset's actually expected life. (See Tr. p. 1055.6.) We also note witness Spanos' testimony that Account 1125 was one of the curves for which "information external to the statistics led to no significant departure from the indicated survivor curve" and for which "the statistical analyses resulted in good to excellent indications of significant survivor patterns[.]" (Hr'g Ex. 15 at Spanos Direct Ex. 1 at III-3.) We believe this supports witness Garrett's use of a more objective analysis for this account. Accordingly, we do not believe the Company has carried its burden and that it should be entitled to recover an annual depreciation expense for this account calculated in accordance with witness Garrett's recommended service life.

(6) Accounts 1290 to 1315 – Structures and Improvements

For these accounts, witness Garrett recommends his curve which "appears to provide a better fit through the pertinent middle portions of the OLT curve." (Tr. p. 1054.29 ll. 6-7.) Additionally, witness Garrett points out that his recommended curve provides "the better

mathematical fit.” (Tr. p. 1054.30 l. 4.) Witness Spanos agrees that witness Garrett uses a relatively “appropriate range of data points” but asserts that Garrett “ignores relevant information from the historical data” by not including data points “past age 50 for his survivor curve” and based on the survivorship characteristics suggested by witness Garrett’s recommended curve. (See Tr. pp. 538.33 to .34.) Additionally, witness Spanos asserts that witness Garrett’s “recommended maximum life for the account is not based on actual data.” (Tr. p. 538.34 ll. 3-4.)

We again conclude that the Company has not carried its burden. Witness Garrett has presented a reasonable analysis based on the application of his credible method. We accord little weight to witness Spanos’s criticisms. We believe witness Garrett’s analysis includes the “relevant information from the historical data” that Spanos asserts is lacking. (See Hr’g Ex. 31 at DJG-13.) First, there is only *one* data point past the age of 50, and it does not have *any* dollars exposed to retirement associated with it. (See *Id.* at 2.) A determination that the data points past age 50 are not relevant is also consistent with witness Garrett’s other testimony in this proceeding. Simple arithmetic shows the 1% threshold takes place at age 48.5 years. (See Hr’g Ex. 31 at DJG-13; accord Hr’g Ex. 15 at Spanos Direct Ex. 2 at VII-3 to -4.¹³) Additionally, witness Spanos’s “recommended maximum life for the account” cannot be based “on actual data” either. (See Tr. p. 538.34.) While “[t]he oldest assets in these accounts currently are 51 years old[,]” witness Spanos recommends over a 90-year maximum life. (See Tr. p. 538.34 at Figure 6.) This has not been observed yet either, and we thus find this criticism unpersuasive. Witness Garrett’s recommendation is based on what the observed data suggests it is reasonable to expect based on a method of analysis that assesses for data reliability, relevance, and takes into account the nature of

¹³ Initial exposure=\$6,650,780. Exposure at year 48.5=\$39,461. $39,461/6,650,780=.0059$ (rounded).

the assets. The Company has not carried its burden for establishing its proposed service life for these accounts.

(7) Account 1350 – Gravity Mains

Witness Garrett recommends using a truncated OLT curve in light of “the sudden and significant gap in the OLT curve at age interval 34[.]” (Tr. p. 1054.31 ll. 7-8.) witness Garrett testifies that the gap “make[s] this OLT curve not ideal for Iowa curve fitting” but recommends curve fitting due to Blue Granite’s failure to “present[] empirical evidence outside of the OLT curve to support its service life proposal.” (Tr. p. 1054.31 ll. 9-10.) After truncation, witness Garrett’s curve provides a superior fit to the observed data. (*See* Tr. p. 1054.33 l. 9; *see also* Hr’g Ex. 31 at DJG-14.¹⁴)

Witness Spanos disagrees that “since there was a large retirement” that the “retirement should be completely removed from the life analysis process.” (Tr. pp. 538.8 to .9.) He notes that the “1% rule” does not support witness Garrett’s truncation. (Tr. p. 538.35 ll. 16-18.) Witness Spanos argues that the retirements at age 34 “need to at least be considered” unless “concrete evidence” suggest those retirements should be excluded from developing the service life estimate. (Tr. p. 538.35 l. 23 to p. 538.36 l. 2.)

We believe witness Spanos attempts to shift the Company’s burden. Witness Garrett applied his method for selecting the most reasonable Iowa curve, and based on his determination about the reliability of the data in light of the gap, adjusted the data for the gap. It does not appear to us that witness Garrett’s truncation judgment stands or falls on the 1% rule. We believe witness

¹⁴ It appears that DJG-14 has been mislabeled in a scrivener’s error. Although DJG-14 and DJG-15 are both labelled “Account 1360”, witness Garrett’s direct testimony makes clear that DJG-14 is for Account 1350 and that DJG-15 is for Account 1360.

Garrett has explained his method, and we believe that it is sound. The Company has not carried its burden for this account.

(8) Account 1360 – Services to Customers

Witness Garrett testified that his recommended curve “appears to provide closer fits to the OLT curve through the significant portions of the OLT curve, including statistically relevant points towards the later portions[.]” (Tr. p. 1054.34 l. 9 to p. 1054.35 l. 1.) Witness Garrett also noted that his curve is “the better mathematical fit.” (Tr. p. 1054.35 l. 5.) Witness Spanos asserts that Garrett inappropriately gives “all data points on the OLT curve equal weighting[.]” (Tr. p. 538.37 ll. 2-3.) Spanos highlights “a clear levelling out of the OLT curve at age 37” which, he concludes, “suggests the data at that point has become less reliable[.]” (Tr. p. 538.37 ll. 4-5.) Witness Spanos also criticizes witness Garrett’s maximum age for the account as “not based on actual data” and as “not reasonable” based on “most” of the pipe in this account being PVC and not metal. (Tr. p. 538.37)

We do not believe the Company has carried its burden on this account. We believe witness Garrett’s recommendation is reasonable based on the evidence presented. Witness Spanos’s criticisms ignore the fact that witness Garrett took into account the statistical relevance of the individual points on the OLT curve, and provided the results of his mathematical analysis omitting data points—towards the end of the curve that failed the 1% rule—showing his recommendation still provides the closer mathematical fit. (*See* Hr’g Ex. 31 at DJG-15 at 2 (compare BGWC and ORS SSD’s for row “Up to 1% of Beginning Exposures).) Additionally, as with Accounts 1290 to 1315, witness Spanos’s recommended maximum life also appears, by necessity, to be based on extrapolation and not observed data. And as with Account 1125, witness Spanos has not provided enough additional information to carry the Company’s burden with respect to the PVC versus

metal question in light of witness Garrett's testimony that his analysis incorporates his professional judgment including consideration of service lives observed in the industry and the credibility we ascribe to witness Garrett. (*See* Tr. pp. 1055.1 to .5.)

Witness Garrett has presented what we believe are persuasive reasons in support of his objectively oriented, mathematical approach. The burden is on the Company to establish its service life estimates. We conclude that the substantial evidence of record shows the Company is entitled to recover depreciation expenses consistent with witness Garrett's service life recommendations.

(9) Accounts 1395 to 1405 – Treatment and Disposal
Equipment

Witness Garrett testifies that his recommended curve “appears to provide a better fit through most portions of the OLT curve.” (Tr. p. 1054.36 ll. 5-6.) Additionally, it is “the better mathematical fit.” (Tr. p. 1054.37 l. 1.) Witness Spanos did not find witness Garrett's recommendation “convincing” because witness Garrett's “estimate factors in some later more unreliable data points[.]” (Tr. p. 538.39 ll. 3-4.) Consequently, “ORS witness Garrett has not provided any significant arguments to deviate from the proposed estimate.” (Tr. p. 538.39 ll. 6-7.)

Again, we find witness Garrett to be a credible witness who has presented a reasonable analysis. The mere fact of a disagreement among experts does not negate his carefully derived conclusions but creates a question of weighing the testimony. Witness Garrett has presented what, after careful consideration, we have concluded are persuasive reasons in support of his objectively oriented, mathematical approach. The burden is on the Company to establish its service life estimates. We conclude that the substantial evidence of record shows the Company is entitled to recover depreciation expenses consistent with witness Garrett's service life recommendations.

3. Net Salvage Estimates

The Company's currently approved net salvage rates are zero. (Tr. p. 1055.8 ll. 17-18.) Witnesses Garrett and Spanos agree that "some level of negative net salvage should be considered in calculating the Company's depreciation rates." (Tr. p. 1055.8 ll. 18-19; *accord* Tr. p. 538.7 l. 4.)

The Company's estimated net salvage values are "[b]ased on industry ranges, historical indications and Company expectations" (Tr. p. 537.11 l. 17.) "Historical net salvage data was not available for Blue Granite," however, because "[h]istorically, [Blue Granite] has not recorded cost of removal or gross salvage separately on work orders." (Tr. p. 537.9 l. 5; Tr. p. 538.7 ll. 10-11.) While Blue Granite will do so in the future, it "has not fully implemented the recording of cost of removal and gross salvage[.]" (Tr. p. 537.11 ll. 15-16; Tr. p. 538.7 ll. 11-14.)

Witness Garrett testified that "[t]he data typically provided to support a utility's proposed net salvage rates includes historical gross salvage and removal cost amounts by account and year." (Tr. p. 1053.) "A depreciation analyst can then consider averages and trends in the data to estimate the most appropriate future net salvage rate." (Tr. p. 1053.) "In this case, the Company did not provide this type of data to support its net salvage rates." (Tr. pp. 1053-54.) Thus, "Blue Granite has not provided any empirical evidence supporting its negative net salvage rate proposals[.]" (Tr. p. 1054.)

Nevertheless, witness Garrett testified that "it is not necessarily unreasonable to assume that the Company will experience negative future net salvage for many of its accounts." (Tr. p. 1054.) However, since the Company has failed to make a convincing showing that its proposed net salvage rates are not excessive, witness Garrett recommends the Commission should take a more conservative approach in setting net salvage rates in this case than was recommended by the

Company, particularly in light of the substantial increase in rates to customers, and the potential for rate shock, created by the Company's requested increase. (*See* Tr. pp. 1055.8 to .9.)

Witness Spanos does offer several reasons that witness Garrett's "claim of the net salvage percents being excessive may be unfounded[.]" (Tr. p. 538.9 ll. 1-3 (font modified).) None are persuasive to us. First, witness Spanos points to witness Garrett's testimony in a single prior case that recommended greater negative net salvage values than even witness Spanos recommends here. (Tr. p. 538.9 ll. 4-10.) However, as witness Spanos explained previously in rebuttal, "[o]ne single isolated estimate for one company, in a different state, with different operational procedures, management and service territory, is not controlling and provides limited value in determining the proper estimate in this case." (*See* Tr. p. 538.32 ll. 16-19.)

Second, witness Spanos points out that witness Garrett's depreciation experience is generally in industries outside of water and wastewater. (*See* Tr. p. 538.9 l. 3.) But as witness Garrett testified, the statistics are of primary relevance, and witness Garrett reviewed the site-specific information on which witness Spanos's recommendations were based but did not find that information persuasive. (*See* Tr. pp. 1071-73.) Finally, witness Spanos offers that witness Garrett's "proposed relatively small changes to the net salvage estimates" undermine witness Garrett's claim that any of the Company's estimates are excessive. (Tr. p. 538.9 ll. 19-21.) But to the extent that any of the Company's estimates "are exceeding what is necessary", witness Spanos' conclusion simply does not follow from his reasoning. (*See* Tr. p. 1055.8 ll. 14-15.)

Three primary considerations drive our determination that witness Garrett's proposed net salvage estimates are more reasonable than the Company's for those accounts that are in dispute. The first is the wholesale absence of the type of data typically relied on to establish net salvage rates. The Company bears the burden to establish why its proposed rates are reasonable. And the

Company is clearly the *only* entity that could actually *track and know* its own net salvage rates. The Company has offered no explanation for its failure to collect relevant data that is within its power to collect and that is necessary to a comprehensive understanding of its own operating expenses. The Company's failure to collect net salvage data particularly stands out in light of the Company's significant capital expenditures—\$23 million since its last rate case with continued major investment intended. (*See* Tr. p. 348.) If the Company does not understand its net salvage costs, it raises concerns that the Company does not fully understand the costs of its capital investments, even as it requests one of the highest ROE's of any utility in the state and plans continued major investments.

Given the wholesale absence of the primary data from which net salvage rates are typically estimated, we agree with witness Garrett that "it is not fair or reasonable to customers to increase net salvage rates by up to 20% without any historical data to support such an increase." (Tr. p. 1055.9 ll. 17-18.) We do note that witness Spanos points out that "Gannett Fleming maintains a list of net salvage estimates for water and wastewater companies." (Tr. p. 538.8 ll. 14-15.) While witness Spanos asserts that the Company's estimates "are, generally, towards the lower end of the range of net salvage estimates used by most water and wastewater companies" (Tr. p. 538. 7 ll. 5-7), given the Company's burden to establish the reasonableness of its net salvage rates, if the challenged accounts were towards the lower end, the Company should say so directly. Similarly, we place little weight on witness Spanos's assertion that the Company's overall net salvage estimates are "conservative" relative to "most" utilities. (*See* Tr. p. 538.8 ll. 20-22.) In the absence of Company-specific data, or even a detailed explanation of why individual net salvage estimates are conservative, we do not believe the Company has carried its burden and believe it is reasonable to adopt more conservative net salvage rates than the Company has proposed.

Finally, we believe our conclusions above are reinforced by the rate shock of Blue Granite's request to customers. (*See generally* Tr. p. 1055.9.) Under the circumstances of this case, we agree with witness Garrett that the net salvage rates presented by ORS fairly balance a complete disallowance of net salvage and the unsupported increases proposed by the Company. (*See* Tr. p. 1055.9 ll. 13-15.)

4. Conclusion

For a majority of plant accounts, ORS and the Company agree on both estimated service life and net salvage value. There is no dispute that the estimated service lives used to calculate the Company's depreciation rate have been, overall, too low or that it is appropriate to account for net salvage costs. (*See* Tr. p. 1055.2 ll. 14-19; Tr. pp. 538.5 to .6.)

While Company witness Spanos argues that witness Garrett relies too heavily on mathematics, we find witness Garrett's explanation of his objective application of mathematics tempered as necessary by his professional judgment to represent a reasonable and compelling approach. We believe witness Garrett has raised meaningful criticisms for the accounts that he addresses based on our consideration of the record evidence as a whole. On this basis we conclude that the substantial evidence of record shows the Company has failed to carry its burden with respect to these accounts.

Regulatory policy considerations only reinforce this conclusion. The recommendations of both witnesses Garrett and Spanos are both designed to fully recover the Company's investments in its water and wastewater plant, which accords with fundamental utility cost recovery principles. However, the Company admits that its requested increase in this case amounts to rate shock. From this perspective, and considering our duty to set just rates, ORS witness Garrett's recommended depreciation rates are superior. *See* Order No. 87-682 (SC PSC July 1, 1987) (recognizing rate

shock as a factor for Commission to consider when setting rates). We also believe witness Garrett's recommendation is more likely to avoid "incent[ing] economic inefficiency" and over-investment in capital assets, without depriving the Company of recourse if the future proves these depreciation rates to be low. (Tr. p. 1054.8.)

The lives established in this proceeding are within the range of the evidence and are a reflection of the Commission's expertise.

C. Non-Revenue Water

The parties disagree regarding whether a limit should be placed at all on the amount of non-revenue water Blue Granite can recover through rates and regarding what the limit should be if there is a limit.

ORS's Position

ORS recommends an adjustment of \$251,311 to reduce purchase water expenses for both Blue Granite service territories to limit customer's responsibility for non-revenue water expense to 10% in each subdivision. Tr. pp. 1202.4-1202.5. Non-revenue water is water that is purchased from a third-party or generated by a company's own system that is not accounted for through customers' billed usage.

ORS requested through discovery information on subdivisions served by third-party providers for which non-revenue water exceeded 10% for the twelve months ending November 30, 2019. Tr. pp. 1201.4-1201.5. The data Blue Granite provided indicated the following 21 subdivisions experienced greater than 10% non-revenue water during this time period:

Subdivision	Non-Revenue Water
Hill and Dale	52.9%
Peachtree Acres	48.8%
Hidden Lakes	35.8%

Leon Bolt	35.3%
Westside Terrace	29.8%
Washington Heights	23.2%
Charleswood	21.5%
Stonegate (North Pines)	20.8%
I-20	20.2%
Hidden Lake	18.2%
Watergate/Spence Point/Mallard Shores	16.6%
Country Oaks	15.1%
River Hills	14.1%
Calhoun Acres	13.9%
Dutchman Shores	12.8%
Windward Point-Harbour Place	12.8%
Foxwood	12.5%
Clearview	12.1%
Farrowood	11.4%
Rollingwood	11.4%
Dutch Village/Dutch Creek	11.3%

Id. Five of these subdivisions—Leon Bolt, Washington Heights, Charleswood, Stonegate (North Pines), and Country Oaks—were partially supplied by wells owned by Blue Granite during the applicable time period. Tr. p. 1202.4. For these five subdivisions, ORS calculated its purchase water expense adjustment using the percentage of purchase water in the systems. *Id.* In other words, ORS does not propose an adjustment to the percentage of water that originated from Blue Granite-owned wells.

In Blue Granite’s most recent rate case prior to the current proceeding, Docket Number 2017-292-WS, there were three subdivisions that had greater than 10% non-revenue water for which ORS requested an adjustment limiting non-revenue water expense to 10%. Order Number 2018-345(A), p. 24; Matthew P. Schellinger II Direct Testimony, Docket Number 2017-292-WS,

pp. 702-03 (Mar. 12 2018). Blue Granite did not oppose the adjustment in that proceeding, and it was accepted by the Commission. Tr. p. 1201.5; p. 398, ll. 10-15; Order Number 2018-345(A), p. 24; Matthew P. Schellinger II Direct Testimony, Docket Number 2017-292-WS, pp. 702-03 (Mar. 12 2018).

In Blue Granite's 2015 rate case, Docket Number 2015-199-WS, the Commission authorized the creation of a deferral account by Blue Granite to record rate increases by third-party water and sewer treatment providers. Order No. 2015-876, p. 29. In this case, ORS recommends Blue Granite's recovery of non-revenue water from the purchase water deferral account also be limited to 10%, resulting in an amortized annual adjustment of \$16,976. Tr. p. 1202.7. The total adjustment is \$50,929 amortized over three years. Tr. p. 1202.7 n. 10.

In calculating the adjustment to the deferral account, ORS used the data provided by Blue Granite through discovery to calculate the aggregate non-revenue water across all subdivisions served by a third-party provider, which resulted in an aggregate calculation of 15.38% non-revenue water. Tr. p. 1201.5. This aggregate calculation is reasonable and conservative because it includes ten subdivisions that realized water gain during the twelve months ending November 30, 2019 (i.e. Company records indicate that the Company sold more water to customers than the Company purchased from the third-party water provider. Tr. p. 1201.6. This phenomenon of water gain highlights a flaw in the Blue Granite's data management, such as metering accuracy and subsequent water balance calculations. *Id.* ORS's conservative non-revenue water percentage is lower than the aggregate when using only those subdivisions that realized non-revenue water over the same period. *Id.*

ORS asserts its recommendation is consistent with the precedent the Commission set in Blue Granite's last rate case, insulates ratepayers from non-revenue water impacts, and

incentivizes the Company to monitor and mitigate non-revenue water. Tr. p. 1201.5. The recommendation also is consistent with the benchmark utilized in the past by the American Water Works Association (“AWWA”).¹⁵ *Id.*

ORS further recommends Blue Granite expand its efforts to monitor and mitigate non-revenue water across all service territories, particularly those served by a third-party water provider. Tr. p. 1201.7. Along these lines, ORS recommends the Company consider having annual water audits performed by an independent third-party vendor to evaluate non-revenue water and potential solutions and that any such independent audit be provided to ORS and filed with the Commission. *Id.*

In response to Blue Granite’s argument that the AWWA no longer suggests a 10% threshold and that subdivision-specific goals should be established instead, ORS asserts that Blue Granite neither has proposed subdivision-specific goals nor provided sufficient data to set such goals. Tr. pp. 1202.5-1202.6. The Company’s Water Accountability Report provides information explaining the cause of only a small percentage of non-revenue water and many of the data fields for non-revenue water are empty. Tr. pp. 1202.2-1202.3. For example, documented flushing events across all subdivisions served by a third-party water provider account for less than 1% of the combined total water input and combined total non-revenue water in these subdivisions over the twelve (12) month period ending November 30, 2019. Tr. p. 1202.3 Similarly, documented leak events across all subdivisions served by a third-party water provider account for less than 1% of the combined total water input and combined total non-revenue water in these subdivisions over the same period. *Id.* The cause of the remaining combined total non-revenue water is not

¹⁵ Committee, A.L.D.a.W.A. (1996), Committee report: water accountability. Journal - American Water Works Association, 88: 108-111. doi:10.1002/j.1551-8833.1996.tb06590.x.

explained by Blue Granite's water audit data. Tr. pp. 1202.3-1202.4. Moreover, while Blue Granite suggests that the cost of conducting leak detection studies would exceed the annual cost of non-revenue water for many of its subdivisions, Blue Granite does not indicate whether the studies would be a one-time or recurring cost whereas, left unaddressed, the annual non-revenue water in these subdivisions is a recurring cost. Tr. p. 1202.5. Absent comprehensive water audit data, a single numeric threshold remains an appropriate and reasonable method to ensure customers are protected against non-revenue water while realizing an acceptable level of non-revenue water may occur. Tr. pp. 1202.5-1202.6. To the extent Blue Granite engages a third-party water auditor, those expenses could be evaluated for recovery in the next rate case, and there should be no deferral treatment or carrying costs associated with such expenses. Tr. pp. 1202.7-1202.8.

Blue Granite's Position

Blue Granite, through witness Mendenhall, asserts the AWWA no longer recommends that a universal threshold such as 10% be used. Tr. p. 363.3. Rather, the AWWA suggests that system-specific goals be utilized. Tr. pp. 363.3-363.4. Blue Granite asserts it is "implementing AWWA-recommended measures against non-revenue water, including reviewing existing data, validating water balance data and recommendations for data validation, preparing an AWWA water balance, making improvements for water loss control, and implementing field leak detection." Tr. pp. 363.4-363.5. It argues it should not be penalized with an "arbitrary threshold" the AWWA has rejected. Tr. p. 363.5. Blue Granite also suggests a benefit-cost analysis should be undertaken because the cost to diagnose and address non-revenue water can be extremely expensive and those costs would be passed along to ratepayers. Tr. p. 363.7. For example, the Company provided estimates for undertaking helium detection studies in each of the 16 subdivisions identified by

ORS wholly supplied by purchase water, which indicate that the cost of the studies would exceed the annual cost of non-revenue water for many of the subdivisions. Tr. pp. 363.7-363.8.

Blue Granite asserts the suggestion that subdivisions with more than 10% non-revenue have increased from 3 in the last rate case to 21 in this case is not an apples-to-apples comparison because 5 subdivisions were partially supplied by Company-owned wells during the applicable period in this case, 4 subdivisions were partially supplied by Company wells during the test year in the 2017 rate case and excluded from the adjustment in that case as it is not determinable whether water losses were attributable to Company-supplied water or purchase water, 1 subdivision was excluded from the adjustment in the 2017 case based on the franchise agreement with York County in effect at the time, and 2 subdivisions in the last rate case had their data compromised by meter reader errors. Tr. p. 363.5-363.6.

Blue Granite advances that a “more reasonable approach than requiring all of a utility’s systems to achieve a 10% non-revenue water target—and one that would be consistent with AWWA’s recommendations—would be to set goals for each system and to evaluate the Company’s efforts towards reducing non-revenue water.” Tr. p. 363.8. Blue Granite is willing to engage a third party to complete water audits for its systems and requests deferral treatment of the resulting costs be authorized, along with carrying cost at the Company’s authorized cost of debt. *Id.* Witness Mendenhall agreed the Company has not provided proposed subdivision-specific goals but proposed a 20% non-revenue water threshold should the Commission deem a particular threshold warranted. Tr. pp. 363.9, 398.

Commission’s Finding

The Commission has carefully considered the arguments and evidence presented. The Commission approves the adjustments to purchased water expense and the purchased water

deferral account ORS proposes. In doing so, the Commission deems it appropriate to continue the 10% threshold set in Blue Granite's prior rate case. *See* Order No. 2018-345(A), p. 24; Matthew P. Schellinger II Direct Testimony, Docket No. 2017-292-WS, pp. 702-03 (Mar. 12 2018). The Commission notes it has set a 10% threshold in other cases as well. *See* Order No. 2013-77, p. 13-14, Docket No. 2007-286-WS; Order No. 2002-866, p. 6, Docket No. 2002-239-W/S. For purchased water expense, the Commission also approves the application of the threshold to subdivisions partially supplied by Blue Granite-owned wells in the proportional manner ORS proposes. While Blue Granite is correct that the AWWA no longer appears to recommend across-the-board thresholds, Blue Granite has not provided subdivision-specific proposals for the Commission to consider. Tr. p. 397, l. 25-p. 398, l. 4. Instead, Blue Granite proposes it be able to recover all non-revenue water from customers or that a threshold of 20% be set. Witness Mendenhall agreed the 20% would be double the amount of non-revenue water the Commission permitted to be recovered from customers in the last rate case. Tr. p. 398. The Commission finds that allowing Blue Granite to recover all non-revenue water would be unreasonable and not beneficial to customers. The Commission declines to accept witness DeStefano's position that non-revenue water is just a "cost of doing business" for which Blue Granite should be allowed to recover from its customers in full. Tr. p. 965. It also does not adequately incentivize Blue Granite to reduce non-revenue water. As for the 20% threshold, Blue Granite has not provided sufficient justification to double the threshold set in the prior case. While Blue Granite testifies to projects undertaken to reduce non-revenue water, it does not provide quantifiable support for how those projects have reduced non-revenue water. Even if the subdivisions over which witness Mendenhall takes issue in his testimony are removed from a comparison between this docket and Docket Number 2017-292-WS, the number of subdivisions with more than 10% non-revenue has

increased from three to nine. In addition, one subdivision completely supplied by purchased water had in excess of 50% non-revenue water, another had nearly 50%, and a third had over 35%.

The Commission recommends the Company consider engaging a third party to complete water audits for its systems. The costs and prudence of doing so will be subject to review in the Company's next case, along with any other costs associated with non-revenue water or inflow and infiltration. The Commission does not approve deferral treatment or carrying costs for water audit expenses.

D. Annual Rate Adjustment Mechanism

In its Application, Blue Granite sought approval of an Annual Rate Adjustment Mechanism ("ARAM" or "Mechanism") for purchased water and sewer treatment expenses. Several parties, including ORS, opposed the Mechanism.

Blue Granite's Position

The Mechanism Blue Granite proposes would initiate a rate adjustment between base rate filings to recover deferral of changes in third-party service provider rates. Application, p. 5. The annual rate adjustment for purchased water expense deferrals would be applied to "Distribution only" customers, and the annual rate adjustment for purchased sewer treatment deferrals would be applied to "Collection only" customers. Application pp. 5-6.. Deferrals would be recorded for 12-month periods beginning on the date rates are effective in this proceeding, and the Company would file for a rate adjustment within 60 days of the end of each annual deferral period. Application p. 6. The Application proposed that "ORS and the Commission complete their respective review and audit of the request within 45 days thereafter, and that the Company notify its customers of the audited rate adjustment within 15 days of audit completion, with the approved

rate becoming effective 30 days thereafter. The interim rate(s) would be reset to zero in the next base rate case as the amortization of deferred expenses is incorporated into the setting of base rates.” *Id.*

In describing how the proposed adjustments would be calculated, Blue Granite witness Destefano testified as follows:

The expense amount for which the Company is seeking recovery through the rate adjustment represents the difference between the amount of purchased water or wastewater expense approved in this rate case, compared to the amount of expense that is known and measurable at the time of the annual rate adjustment, which could be higher or lower. The current amount of expense will be calculated by summing the consumption data from invoices making up the approved amount of expense in this rate case and applying the most current rates charged by third party suppliers where the rate has changed since this rate case. This method would be used to isolate the impact that changes in rates from third party providers have on changes to the expense level, not changes in expense levels due to consumption or customer growth. In addition, the Company will continue to accrue monthly the impact of the rate change from the vendor to a regulatory asset. The combined deferral balance and annualized impact of the change in vendor rates versus authorized will be divided by the annualized authorized consumption of the applicable customer group to determine the adjustment rate. After the initial implementation, the rate adjustments would include true-up calculations for over- or under-collection on revenues attributed to the rate adjustments approved in the prior application. Any over- or under-recovery related to the difference between the revenues billed and the authorized recovery through the mechanism would be reconciled and charged or credited to customers, as appropriate, in the next Annual Purchased Water and Wastewater Rate Adjustment filing.

Tr. pp. 763.33-763.34.

Prior to Blue Granite’s 2015 rate case, the Company utilized a pass-through approach whereby when a third-party water or wastewater services provider increased its rates, those increases were passed through to the customers serviced by that provider after a notice period and approval from the Commission. Tr. p. 763.25. In 2015, with ORS’s support, Blue Granite moved away from the former pass-through system because of administrative issues with constantly altering 39 different rates due to changes in rates by the various third-party providers. Tr. pp.

763.25-763.26. Blue Granite asserts the newly proposed system will not have these issues because rates will change no more often than once per year, they will change on a consolidated basis utilizing the Company's current consolidated rate system, and the rate changes will be easier to understand because the purchased water and purchased sewer treatment costs will be reflected in separate line items on customer bills. Tr. p. 763.26. Purchased water and wastewater treatment expenses represent over 40% of the increase in costs Blue Granite seeks to recover in this rate proceeding. Tr. p. 763.27. From 2017 to 2018, purchased water expenses increased by 27% and purchased wastewater services expenses increased by 58%. Tr. p. 763.30.

DeStefano asserts purchased water expenses and wastewater services expenses are comparable to fuel costs in electric cases that vary significantly from year to year. Tr. p. 763.30. He testified "[p]ermitting recovery to track, on a one-to-one basis, actual costs—outside of a general rate proceeding—will match expenses to recovery on a more timely basis and mitigate large rate shocks in rate cases, thereby benefitting customers." Tr. p. 763.31. "Additionally, mechanisms such as these can help to alleviate large fluctuations in rates from base rate cases (i.e., mitigate rate shock) by providing for more gradual adjustments to rates, while at the same time sending more accurate price signals to customers that reflect the true cost of service." Tr. p. 763.32.

Blue Granite is opposed to a pass-through mechanism that is territory-specific whereby a change in rates by third-party provider is only passed through to the customers who receive water or wastewater treatment from that provider. Tr. p. 763.38. Blue Granite asserts such an approach is inconsistent with the Commission-approved consolidated rate design it has and would disproportionately impact certain customer groups whose third-party providers have greater rate increases. *Id.*

Blue Granite asserts the ARAM is permissible under S.C. Code § 58-5-240(G) because it does not require a determination of the Company's entire rate structure. Tr. pp. 763.40-763.41. Rather, the ARAM would adjust a single, segregated charge on customer's bills related to recovery of third-party provider rate changes. *Id.* Consequently, the notice and hearing process of a full rate case are not necessary. Tr. pp. 763.39-763.41. Nonetheless, Blue Granite is open to providing notice and opportunity for a hearing in the annual Mechanism proceedings, if the Commission deems it appropriate. (Tr. p. 907, l. 11-p. 909, l. 13). The Company is agreeable to the public being given the opportunity to participate in the hearing process, also. (Tr. p. 910, ll. 19-21). However, Blue Granite's position is the calculation of the ARAM is "strictly a mathematical exercise," without much room for interpretation. (Tr. p. 909, l. 14-p. 911, l. 3; p. 764.18, ll. 5-8). If a threshold is set for non-revenue water in this proceeding, that threshold could not be altered during the ARAM proceedings because that would affect base rates. (Tr. p. 918, ll. 4-14; p. 919, l. 20-p. 920, l. 8; p. 922, ll. 6-14). Blue Granite is agreeable to whatever threshold for non-revenue set in this proceeding, if any, being factored into the ARAM calculation and carried forward until the next full rate case. (Tr. p. 917, l. 16-p. 918, l. 3; p. 925, ll. 13-25).

In response to York County's arguments in opposition to the ARAM, Blue Granite asserts York County has benefited from the consolidated rate structure which exists. Tr. pp. 764.12-764.13. Also, rate increases York County has imposed since the last rate case are a significant component of the increased purchased water and purchased wastewater treatment costs Blue Granite seeks to recover in this proceeding. *Id.* These increased costs from York County will be spread among customers under the Company's consolidated rate structure. *Id.* In addition, Blue Granite argues York County can, at any time, amend the ordinance it enacted limiting further rate increases.

ORS's Position

ORS opposes the ARAM as seeking to recover significant annual expenses with little to no review and inadequate customer protections. Tr. p. 1214.2. ORS asserts, through witness Sandonato, that the ARAM is not a pass-through of a change in rates but rather a pass-through of expenses. *Id.* The “pass-through” of a change in rates is fundamentally different than the “pass-through” of a change in expenses. *Id.* The Company’s proposed ARAM bases the calculation of the annual rate change to customers on the level of expenses incurred by the Company which includes non-revenue water, changes in customer consumption, and inflow and infiltration. Tr. p. 1213.22. While Blue Granite stated the ARAM allows the Company to track and pass on to customers changes in third party rates on a dollar-for-dollar basis without markup or margin, this is not correct because the Company would be passing on additional costs that could be attributed to non-revenue water or inflow and infiltration (“I&I”) for purchased sewer treatment systems. Tr. p. 1214.3. Non-revenue water and I&I are appropriately reviewed in a general rate proceeding. *Id.*

ORS witness Sandonato provided the following example to illustrate how additional costs such as non-revenue water and I&I would be passed on. Tr. pp. 1214.2-1214.3. If a third-party water provider increased the purchased water rate by \$0.05 per 1,000 gallons and the Company was billed for 100,000,000 gallons of water at the updated purchased water rate for the year, then the Company’s total increase in purchased water expense would be \$5,000. *Id.* If customers’ metered consumption of that 100,000,000 gallons was 75,000,000 gallons, customers would pay an additional \$3,750 for the year under a dollar-for-dollar pass-through of rates water utilities such as Kiawah Island Utilities, Inc. and Ocean Lakes Utility, L.P. have. *Id.* Under the pass-through of expenses the Company proposes in its Application, there would be an allocation of the increased

purchased water expense to customers resulting in them paying the \$3,750 attributed to customer consumption plus an additional \$1,250 not attributable to customer consumption. *Id.*

In addition, the proposed additional, separate purchased water and sewer treatment charges do not improve clarity, as they do not reflect the actual cost of the purchased water or sewer treatment costs incurred by each customer. Tr. pp. 1211-1212, 1214.8. In other words, if a third-party water supplier for customers is charging \$5 for 1,000 gallons, those customers' bills are not going to reflect they are paying \$5 per 1,000 gallons. The bills will reflect some other number because of the consolidated nature of Blue Granite's rate structure. Until Blue Granite is able to provide customers the actual purchased water or purchased sewer treatment expenses related to the services the customer receives from the third-party provider, clarity and transparency will not be improved. Tr. pp. 1212, 1214.8-1214.9.

ORS recommends the Commission deny Blue Granite's request to establish an ARAM and continue the current system under which increases by third-party providers are placed into a deferral account to be considered as part of the next general rate proceeding. Tr. p. 1210. If the Commission determines the Company should recover its purchased water and sewer treatment charges more quickly than a general rate proceeding, ORS recommends that any rate customers pay for purchased water and sewer treatment be established in a way such as to reflect the actual rate from the third-party provider that provides the service to the customer. Tr. p. 1211. In other words, any mechanism approved should be the type of dollar-for-dollar pass-through utilities such as Kiawah Island Utilities, Inc. and Ocean Lakes Utility, L.P. have in place.

Should the Commission deny approval of the ARAM and continue the current deferral system, ORS further recommends the Commission not approve Blue Granite's request to apply carrying costs at the Company's cost of debt to the purchased water and sewer treatment deferral

accounts. Tr. 1214.9. The request to receive carrying costs in addition to recovery of the deferral will impact customers negatively by increasing the amount to be recovered from them. *Id.* Purchased water and sewer treatment expenses are similar to power, contract labor, and chemicals. *Id.* The continuation of the deferral allows the Company the opportunity to recover expenses outside of the historic test year. *Id.* This benefit accrues to the Company and is sufficient. *Id.* The addition of carrying costs is not necessary and does not benefit the customer. *Id.*

ORS also recommends the Commission require Blue Granite conduct a cost of service study that coincides with the test year and is included as part of its next rate case. Tr. p. 1214.7. Blue Granite stated it is open to filing a cost of service study in its next rate case. Tr. p. 764.37. ORS asserts a cost of service study is essential to determine the proper rate design and previously the Commission has required significant rate design changes to be fully supported by relevant data prior to implementing the proposed changes. Tr. 1214.7. Fundamentally, the cost of service study will demonstrate which costs need to be recovered and from which customer classes the cost should be recovered. *Id.* ORS believes Blue Granite should retain its existing rate structure of a Base Facility Charge, a commodity charge based on water consumption for water customers and per Single Family Equivalent charge for sewer customers until a cost of service study is completed. *Id.*

Intervenors' Positions

York County, through witness Eric Rekitt, indicated it was opposed to the ARAM. York County, in December 2019, passed an ordinance suspending water and sewer rate increases. Tr. pp. 1029.2-1029.3. It is concerned that if other third-party providers increase their rates in the future, rates for York County customers could be impacted because of Blue Granite's consolidated rate structure. Tr. p. 1029.3. The County has concerns, similar to ORS, that the ARAM does not

adequately incentivize Blue Granite to reduce I&I and non-revenue water. *Id.* York County supports a dollar for dollar territory-specific pass-through under which the rates for Blue Granite customers in York County only change in accordance with the rates of third-parties servicing customers in the County. *Id.* If an annual mechanism is approved, York County asserts it should include an opportunity for interested parties such as it to participate in the process. Tr. 1029.4.

The two witnesses for 40 Love Point also expressed opposition to Blue Granite's proposed ARAM. Tr. pp. 732.1-732.3, 737.1-737.3.

The Consumer Advocate, through witness Morgan, testified it also has concerns about how non-revenue water is treated under the ARAM and regarding the Blue Granite's effort to recover 100% of its non-revenue water. (Tr. p. 698, l. 15-p. 700, l. 8). Morgan agrees that Blue Granite's proposal is not a pass-through of rates. *Id.*

Commission's Finding

The Commission is charged with setting "just and reasonable standards, classifications, regulations, practices and measurements of service to be furnished, imposed, observed and followed." S.C. Code § 58-5-210. Applying this statutory charge, the Commission declines to approve the ARAM Blue Granite proposes. While Blue Granite has sought to address some of the concerns raised by the parties through incorporation of the non-revenue water threshold set in this Order and through agreeing to notice and a hearing in which the public can participate as part of the annual process, it also has stated the process would be a "strictly a mathematical exercise," without much room for interpretation. Blue Granite has indicated the threshold set for non-revenue herein could not be altered in the annual proceedings, as that would constitute a change in base rates and require a full rate case. Blue Granite also has not demonstrated the ARAM would improve bill clarity for customers, as the methodology for calculating the purchased water and

sewer charges is confusing and would not yield a number that reflects the actual cost of the purchased water or sewer treatment costs incurred by each customer.

Blue Granite is authorized to continue the deferral accounting treatment of changes in purchased water and wastewater treatment rates established in Docket Number 2015-199-WS. Blue Granite is not authorized to apply carrying costs to these deferral accounts.

The Commission also declines to approve the changes Blue Granite proposes to its rate structure to add separate purchased water and sewer treatment charges, which were proposed to effectuate the ARAM. Blue Granite shall maintain its existing rate structure of a Base Facility Charge, a commodity charge based on water consumption for water customers, and per Single Family Equivalent charge for sewer customers.

The Commission directs Blue Granite to complete a cost of service study that coincides with the test year and is included as part of its next rate case. The costs associated with conducting the study will be subject to review.

E. Proposed Adjustment to Greenville Office Upfit

ORS recommends an adjustment of \$495,206 to eliminate costs Blue Granite incurred to upfit the space it leased for its new headquarters in Greenville, South Carolina. Blue Granite opposes the adjustment. This adjustment is reflected in Adjustment 32.

ORS's Position

ORS's recommendation is based on its position that Blue Granite's decision to relocate its West Columbia, South Carolina office to Greenville was unreasonable and the cost of upfitting the space the Company leased in Greenville should not be the responsibility of customers. Tr. p. 1201.8. When asked during discovery about its justification for moving the office, Blue Granite stated:

The primary focus of the office relocation was to attract and retain the professionals needed to maintain and improve the Company's ability to provide utility service at reasonable cost. The Company and the industry as a whole has an aging workforce, and the eligible workforce is shrinking, so ensuring that the right professionals are being attracted to the Company and retained by the Company is fundamental to the Company's ability to continue providing quality and cost-effective service. The Company looked at Greenville and Columbia/West Columbia as location options. We used CBRE data (attached) to compare labor statistics of Columbia versus Greenville and decided upon Greenville. The Greenville office is within walking distance of our outside engineers (GMC) and peer utilities, Pacolet Milliken and Duke Energy, and offers additional conveniences to current and potential employees. The Columbia area did not have these same benefits. Customers benefit from the acquisition and retention of talented employees for the Company, which can minimize turnover costs and institutional knowledge loss over time. Please see attached file "Office Expenses" for the Columbia office costs offset by rent expense for the Greenville office."

Id.

While Blue Granite repeatedly pointed to employee retention issues as the driving force behind the move, it admitted through witness Denton's testimony that "[a]ttracting talent in the Columbia market has been extremely difficult due to the legacy brand issues in that market." Tr. p. 355.6, ll. 5-7. Denton testified the legacy brand issues were caused by the Company itself. (Tr. p. 445, l. 15-p. 446 l. 8). On December 10, 2018, Blue Granite filed a letter with the Commission in Docket Number 2018-365-WS that it was sending to customers describing its rebranding from Carolina Water Service, Inc. to Blue Granite. Tr. p. 1202.8. This letter stated the Company was "refreshing our brand at no cost to our customers to reflect our legacy and to showcase our new direction." Tr. p. 1202.8; Hearing Exhibit 40 (emphasis added). Even though Blue Granite represented to its customers that the refreshing of its brand would be at no cost to them, it is contradicting that representation by attempting to pass on to customers office upgrade costs that were part of its rebranding and caused by talent acquisition issues it created. Tr. p. 1202.8. Notably, despite its representation in its December 2018 letter to its customers, Blue Granite

sought through its Application to have ratepayers pay for other expenses associated with its rebranding such as vehicle logo and decal expenses, new uniforms, and legal fees. Tr. pp. 1133.3-1133.4, 1133.7-1133.8. Blue Granite agrees to the adjustments proposed by ORS witness Jackson removing these other rebranding expenses but opposes the removal of the Greenville office upfit expenses. Tr. p. 764.4.

As purported justification for the move, Blue Granite testified it considered CBRE data for three locations in making its decision: Greenville, Columbia, and West Columbia. Tr. pp. 1201.8-1201.9. The total index score on the CBRE report for Greenville was 105, for Columbia was 103, and for West Columbia was 101. Tr. p. 1201.9. The CBRE data was generated using a 20-mile radius for Greenville and Columbia and a 10-mile radius for West Columbia. *Id.* Although ORS requested it, Blue Granite was unable to provide CBRE data for West Columbia using a 20-mile radius because it no longer had access to the database. Tr. 1201.10. Consequently, it is not known what the total index score for West Columbia would have been using an equivalent radius to Greenville. Regardless, the reports state that “all scores above 100 indicate a positive attribute, while scores below 100 indicate a negative attribute. **Cost scores are inverted so that a score above 100 indicates a lower cost market than the national average.**” Tr. p. 1201.9; Hearing Exhibit 39. ORS asserts the minimal difference between the CBRE scores, including only two points between Columbia and Greenville, was not such as to justify the high cost to relocate to and upfit a new office. Tr. p. 1201.10.

In addition, when asked to identify cost savings for customers from the move from an office it owned to a leased space in Greenville, Blue Granite indicated it would save approximately \$27,260 annually by removing costs such as water, sewer, electric, gas, landscaping, and property

taxes. Tr. 1201.12. However, this number is nowhere close to offsetting the \$84,685 in annual rent expense for the Greenville office the Company now has. *Id.*

Also, while Blue Granite's former office was in Lexington County where approximately 43% of its customers live, its new office is located in another part of the state in a county where only about 2.6% of its customers live. Tr. p. 1201.11.

The "ultimate burden of showing every reasonable effort to minimize . . . costs remains on the utility." Utilities Servs. of S.C., Inc. v. S.C. Office of Regulatory Staff, 392 S.C. 96, 110, 708 S.E.2d 755, 763 (2011). ORS asserts Blue Granite failed to meet this burden. Its new location is in a historic building on Main Street in downtown Greenville. Tr. p. 1201.12. The Company spent \$495,206 retrofitting the space which houses 10 employees, including tasks such as installing drywall, electrical lines, and telecommunication lines. Tr. pp. 355.4-355.5. The Company provided no evidence it evaluated the cost of other potential office locations in less prime locations that may have required less upfitting, as Denton testified he did not know whether Blue Granite examined lease or upfitting costs for office spaces in the other geographic locations it considered. (Tr. p. 487, ll. 8-19). Moreover, the JLL "cost benchmarking guide" upon which Denton relied to support the upfitting costs in his Rebuttal Testimony states the average fit out it is intended to represent is a typical fit out found in a typical Class A office building. (Tr. p. 391, l. 4-p. 393, l. 14). A Class A building is defined as "an above average building in a given market, with excellent finishes, building services, building systems and location. Rents for a Class A building are usually in the top third of the overall market, although this figure can vary by market." *Id.* Denton testified he would not consider the building where Blue Granite is headquartered to be a Class A building. (Tr. p. 393, l. 15-p. 394 l. 1). Therefore, the JLL guide is not a benchmark that supports the reasonableness of the upfit expenses.

Blue Granite's Position

Blue Granite, through witness Denton, asserts that the Company requires a headquarters, and as long as the costs of the office are reasonable, they should be reflected in rates. Tr. p. 355.4. He testified the former West Columbia office “was located in an industrial park with no other office buildings and no amenities, like restaurants, nearby” and was “simply not a viable location for attracting and retaining talented employees.” *Id.* The Company necessarily would incur upfit costs wherever it relocated. *Id.* Blue Granite avers the relevant question for regulators is “whether those upfit costs are reasonable.” *Id.* Denton testified “[t]he decision to relocate our headquarters office to Greenville was a reasonable business decision, made with the long-term interests of customers in mind.” *Id.* “Virtually all of the [upfit] costs were necessary to making the office space ready for work. . . . The offices are up to date and functional, but they are not luxurious or gold-plated.” *Id.*

In support of the reasonableness of the cost, Denton relies upon the aforementioned JLL “benchmarking guide,” which contains no prices for South Carolina cities but indicates the per-square-foot price medium-spec upfit in Charlotte, North Carolina, is \$150.84. Tr. p. 355.5. Applying that number to the 4,287 square feet leased in Greenville results in a \$646,651.08 upfit cost. *Id.* Applying the per-square-foot number for the cheapest domestic city in the JLL report yields a total upfit cost of \$631,989.54. *Id.* Both figures are higher than the amount spent to upfit the space in Greenville. *Id.* Denton also notes that whereas 7 employees were housed in 4,050 square feet in the West Columbia office, 10 employees are housed in the Greenville office, which also has communal areas. *Id.*

Denton testified the decision to relocate was a strategic decision, consistent with Blue Granite’s “long-term plans for growth and to better serve customers.” Tr. p. 355.6 The Company

relied upon the aforementioned CBRE data. *Id.* Denton agrees “with ORS that the CBRE Total Index scores are not conclusively determinative as to which city is best suited for the Company,” but asserts “the attributes of Greenville versus Columbia/West Columbia better match our long-term goals of attracting and retaining talented employees and growth throughout the state.” *Id.* Denton states the labor force, projected population growth, and balance between labor supply and labor affordability statistics in the CBRE reports support the decision. *Id.* He testifies the Company has been able to attract “several strategic new hires who have provided value to customers” since relocating to Greenville and that this fact supports the reasonableness of the move. Tr. p. 355.7. Blue Granite introduced into evidence a chart summarizing the qualifications of eight employees hired after the relocation to Greenville. (Tr. p. 472 l. 21-p. 473 l. 24).

Denton testified the fact the new headquarters is near fewer of its customers than its previous location is not an important factor because “customers rarely if ever visit our headquarters office, and customer contacts are better addressed through our customer service center.” Tr. p. 355.7.

Commission’s Finding

After careful consideration, the Commission approves the adjustment recommended by ORS. Blue Granite indicated the employee retention issues were the reason the Company moved its headquarters to Greenville. Denton testified “[a]ttracting talent in the Columbia market [was] extremely difficult due to the legacy brand issues in that market.” Denton testified the legacy brand issues were caused by Carolina Water Service, which is now rebranded as Blue Granite. Blue Granite’s customers should not have to pay the costs to upfit the Greenville office, given the move was necessitated by legacy brand problems the Company admits it created. That Blue Granite claims it has been able to retain high quality employees since moving to Greenville does

not alter this decision, as no evidence has been presented upon which the Commission can conclude the Company would not have been able to retain high quality employees in Columbia even if it had not damaged its legacy brand.

In addition, Blue Granite represented to its customers that the refreshing of its brand would be at no cost to them. Hearing Exhibit 40. Blue Granite is now seeking to contradict that representation by attempting to pass on to customers office upgrade costs that it has said were part of its rebranding and caused by talent acquisition issues it created.

Further, Blue Granite agrees the relevant question is whether the upfit costs for the Greenville office were reasonable. Tr. p. 355.4. Blue Granite has not sufficiently shown the costs were reasonable or that the Company undertook every reasonable effort to minimize the costs. Utilities Servs., 392 S.C. at 110, 708 S.E.2d at 763. For reasons ORS set forth, the JLL guide is not an appropriate benchmark for assessing the reasonableness of the cost. Also, the Company has provided no quantifiable cost savings from the move, as the potential savings identified are more than offset by the lease expense. The Company provided no evidence it considered other potential office locations in less prime locations that may have required less upfitting, as Denton testified he did not know whether Blue Granite examined lease or upfitting costs for office spaces in the other geographic locations considered. The minimal differences in the CBRE index scores for the three cities are not sufficient to outweigh the numerous reasons the Commission has outlined for approving the adjustment ORS recommends.

F. Round Up Program

Blue Granite seeks Commission authority to implement a voluntary Round Up Program, which would round the bills of participating customers to the nearest higher dollar, with the

difference accumulated in a reserve fund for remittance to the South Carolina Office for Economic Opportunity (“SCOEO”). The funds would be distributed to community action agencies in Blue Granite’s service territory to assist low income customers with their water and sewer bills. Blue Granite indicated that pursuant to the provisions of a memorandum of understanding between Blue Granite and the SCOEO, the funds can only be used to assist with paying Blue Granite bills. (Tr. p. 1190.10, ll. 1-3). To be eligible for the Program, customers must be at or below 125% of the federal poverty level. *Id.* ll. 4-5. Customers who qualify are eligible for assistance in an amount not to exceed \$50 once during the program year, which runs from July 1st to June 30th. *Id.* ll. 6-12. Customers would be able to opt into participating in the Program through the MyUtilityConnect mobile application or by calling a customer service representative. *Id.* ll. 15-18.

Blue Granite’s Position

Blue Granite seeks approval to defer implementation costs for the Program related to modifications of its billing system and MyUtilityConnect mobile application for recovery in its next base rate case. (Tr. p. 763.24 ll. 1-4). Blue Granite’s total estimated cost range for these implementation costs is between \$29,000 and \$50,000. (Tr. p. 1190.13, ll. 19-20). Blue Granite also seeks to recover in this case a pro-forma adjustment of \$14,674 consisting of estimated costs for bill inserts/flyers to be used as communication for customer engagement regarding the Program. (Tr. p. 1190.12, l. 19-p. 1190.13 l. 2).

Blue Granite is agreeable to the position of the Consumer Advocate that the deferral of the costs to modify the billing and customer service systems be subject to review before recovery through rates is authorized and to a cap of \$50,000 for these costs. (Tr. p. 724.6, ll. 6-13).

Blue Granite asserts the Program is part of its service offering and cost to serve customers. Although Blue Granite admits the benefits are difficult to quantify, the Company's position is that "the existence of the Round Up Program and the accompanying assistance to lower income customers should result in fewer disconnect/reconnect (and therefore lower customer service expenses), as well as lower uncollectible expenses—which will benefit all customers." (Tr. p. 764.5, l. 21-764.6, l. 3).

ORS's Position

ORS supports a Round Up Program to assist low income customers but recommends the Program be modified to ensure customers do not pay the Company's estimated costs associated with development, implementation, maintenance, and communication expenses. (Tr. p. 1190.14, ll. 12-15). ORS recommends the Commission deny recovery of the costs for the bill inserts/flyers and the modifications to Blue Granite's billing and customer service systems. *Id.* ll. 17-22. These estimated costs are not known and measurable and do not contribute to the provision of safe and reliable water and sewer service. (Tr. p. 1190.14, l. 22-1190.15, l. 1). Customers who do not choose to participate in the voluntary program should not be required to pay administrative costs associated with it. Further, Blue Granite has provided no evidence that the Program will result in fewer disconnect/reconnect situations, lower customer service expenses, or lower uncollectible expenses. (Tr. p. 1191.5, ll. 19-21). Blue Granite agrees any such perceived benefits are "difficult to quantify" and has not proposed an offset to uncollectible expenses based on the proposed Program. (Tr. p. 1191.5, l. 21-p. 1191.6, l. 7). Any customer assistance provided through the Program will end up increasing Blue Granite's revenue. The Company's proposal does not include its shareholders paying for the costs associated with starting and administering the program but instead assigns the costs for the Program to its customers. (Tr. p. 1191.6, l. 20-p. 1191.7, l. 3).

None of Blue Granite's affiliates in other parts of the United States utilize a Round Up Program. (Tr. p. 1190.11, ll. 11-12). ORS is aware of no other water or sewer utilities under the Commission's jurisdiction that have a program similar to what Blue Granite proposes. *Id.* ll. 17-19. Two electric and natural gas utilities, Duke Energy and Dominion Energy South Carolina, Inc. have similar programs called Share the Warmth and Project Share, respectively. (Tr. p. 1190.12, ll. 1-6). The administrative and communication costs for Duke Energy's program are paid by Duke's shareholders, not its customers. (Tr. p. 1190.13, ll. 5-13).

Consumer Advocate's Position

The Consumer Advocate stated through witness Morgan's testimony that it is not opposed to the Round Up Program but is opposed to a deferral of costs that assumes automatic recovery in the next rate case. (Tr. p. 651.20, ll. 17-22). Morgan recommends a cap be placed on the deferral of costs related to modifying the billing system and MyUtilityConnect and that the deferred costs be reviewed as part of Blue Granite's next rate case. *Id.*

Commission's Finding

After careful consideration of the parties' positions, the Commission authorizes Blue Granite to create a Round Up Program with the modifications ORS proposes. Blue Granite is prohibited from passing on to customers the administrative and implementation costs for the Program, including the bill inserts/flyers and the modifications to Blue Granite's billing and customer service systems. The estimated costs for the bill inserts/flyers and the modifications to Blue Granite's billing and customer service systems are not known and measurable and do not contribute to the provision of safe and reliable water and sewer service. Customers who do not choose to participate in the voluntary program should not be required to pay administrative costs associated with it. Further, Blue Granite has provided no evidence that the Program will result in

fewer disconnect/reconnect situations, lower customer service expenses, or lower uncollectible expenses. Blue Granite agrees any such perceived benefits are “difficult to quantify.” Also, Blue Granite has not proposed an offset to uncollectible expenses based on the proposed Program.

G. Storm Reserve Fund

In its Application, Blue Granite requests authorization to establish a \$200,000 Storm Reserve Fund to support recovery from extraordinary damages sustained in severe storms such as Hurricane Florence.

Blue Granite’s Position

Under the proposal, Blue Granite would create a monthly, flat surcharge of \$0.53 to be billed to each customer’s water and sewer service account until the reserve threshold of \$200,000 is reached. (Tr. p. 763.21). The proposed monthly surcharge is \$0.53 per customer service provided, which means that a customer receiving both water and sewer service would be assessed two surcharges for a total of \$1.06. Tr. p. 763.22. The \$200,000 threshold was based on the level of expenses from Hurricanes Florence and Michael. (Tr. p. 763.22). In the deferral the Commission approved in Order Number 2019-125, Blue Granite recorded \$208,713 in storm costs associated with those two storms. *Id.* The surcharge would be suspended the month following when the reserve threshold is reached. Tr. p. 763.21. If the Fund is used, Blue Granite would then re-initiate the surcharge to replenish the reserve again until \$200,000 is reached. *Id.* Blue Granite would inform the Commission and ORS of any suspension or reinstitution of collection of the surcharge from customers. Tr. p. 1190.16). The Fund would be utilized if the incurred expense from storm damage is more than the amount for storm costs reflected in the revenue requirement to calculate base rates. Tr. p. 763.21.

In support of Blue Granite’s position, witness DeStefano testified that “storms, particularly extreme storms, are having an increasing impact on Blue Granite’s customers and the ability of the Company to provide service following a storm event.” Tr. p. 763.20. He asserts that a dedicated Storm Reserve Fund will facilitate the expeditious repair and recovery of Blue Granite’s essential facilities, infrastructure, and services. *Id.* Further, the proposed Fund would minimize the need for deferred accounting petitions such as occurred after Hurricanes Florence and Michael. *Id.* Blue Granite was granted deferral treatment for those expenses, and no party has opposed its recovery of the deferred expenses in this proceeding. Tr. p. 763.22. Blue Granite asserts the Fund would permit it to recover the true costs of storm damage without the need to use other funds already allocated to other necessary activities. Tr. pp. 763.20-763.21. The Fund “recognizes that the cost to restore service following a storm is a reasonable and necessary cost of providing service and . . . provides a means to reflect in the price for water and wastewater service the cost of storm damage recovery.” Tr. p. 763.21. In addition, DeStefano testified the Fund would mitigate “the potential for a catastrophic storm to erode the Company’s earnings and impair the Company’s financial ability.” *Id.* According to Blue Granite, the Fund “would be used to cover extraordinary storm restoration costs beyond those included in the Company’s revenue requirement.” Tr. p. 764.23. Such costs would include, “for example, generator services necessary to restore service, damage assessments and inspections, site preparation, and facilities repair.” *Id.*

Blue Granite agrees with ORS’s proposal that the Fund be utilized for damage incurred as a result of only storms named by the World Meteorological Organization and is agreeable to providing annual reports to the Commission and ORS about the status of the Fund. Tr. pp. 764.23-764.24.

In response to the Consumer Advocate’s testimony, Blue Granite agrees that its pipes are underground which limits their vulnerability to hurricane damage. Tr. p. 363.11. However, the most significant parts of its infrastructure in terms of cost and vulnerability to storm damage is its plants. *Id.*

ORS’s Position

ORS investigated the proposed Storm Reserve Fund, including requesting a sample bill form to demonstrate how the surcharge would be reflected on customers’ bills. Tr. p. 1190.17. Blue Granite was unable to provide a sample bill form but did provide a proposal/draft of how the surcharge might appear on a bill. *Id.* In the proposal/draft, because the customer received both water and sewer service from Blue Granite, the \$0.53 surcharge appeared twice on the draft. *Id.* Blue Granite provided two proposed bill messages related to the Fund—one for initiation of the charge and the other for suspension of it. *Id.*

ORS confirmed it would take approximately one year to fully fund the \$200,000 Blue Granite requests. *Id.* When comparing the proposed Fund amount of \$200,000 to the annual storm expenses of Blue Granite over the previous ten years and excluding the amounts incurred for Hurricanes Matthew and Florence, the proposed amount is significantly higher than the average of \$28,320.51. *Id.* Aside from Matthew and Florence, the highest amount of storm restoration costs was \$54,716.21 in 2018. Tr. pp. 1190.17-1190.18. When asked in discovery, Blue Granite could not identify any water or sewer customers who lost service due to storm damage in the last five years but indicated it had “occasionally experienced service disruptions due to temporary power loss and damage to supply or treatment infrastructure as well as main breaks, which can cause low pressure and require boil water advisories. It can take from less than an hour to several days to

restore full service to customers depending on the nature of the damage sustained.” Tr. pp. 1190.20, 764.23.

None of Blue Granite’s affiliate companies have an approved storm reserve fund. Tr. p. 1190.20. ORS is aware of no other water or sewer utilities under the Commission’s jurisdiction that use a storm reserve fund similar to what Blue Granite proposes. *Id.* Two electric utilities under the Commission’s jurisdiction have storm reserve funds. *Id.*

Blue Granite proposes to hold the Storm Reserve Fund in existing bank accounts managed by Water Service Corporation which are utilized for customer collections and vendor payment. Tr. p. 1190.21. These accounts do not accrue interest. *Id.* Water Service Corporation is not a utility under the Commission’s regulatory authority. Tr. p. 931. It is a service company for Blue Granite and other affiliates. Tr. p. 1190.21. Blue Granite agreed the Fund would be commingled with other money managed by Water Service Corporation. Tr. p. 932.

ORS generally supports a Storm Reserve Fund that contains sufficient customer protections, increases service reliability, and contains strict procedures for fund operations. Tr. p. 1190.21. The proposed Fund does not provide customers additional benefits such as increased water and sewer service reliability or cost savings. *Id.* Blue Granite is obligated to restore service within the time frames required under the Commission’s regulations, regardless of whether it has the Fund it proposes. Tr. pp. 1191.8-1191.9. To provide greater customer protection, ORS recommends the Fund be modified to include the following provisions:

1. The Fund shall be utilized for damage incurred as a result of only storms named by the World Meteorological Organization;

2. If Blue Granite receives any insurance proceeds for storm damage, those proceeds first must be used to replenish any funds withdrawn from the Storm Reserve Fund before any remaining insurance proceeds are utilized for any other purpose;
3. Blue Granite must provide annual reports to the Commission and ORS on the status of the Fund, including dates and amounts of withdrawals and expenditures, current balance, and current monthly surcharge;
4. Detailed procedures that outline, in a transparent manner, how the Fund will be used, accounted for, and reported to ORS and the Commission;
5. A lower Fund amount of \$50,000;
6. The Fund be subject to regulatory accounting standards as a reduction to rate base;
7. The Fund should be kept in a separate account managed by Blue Granite to avoid any potential risk of commingling funds, and the account should only be accessed when the parameters for doing so are met; and
8. Given that the Company could be holding the money constituting the Fund for an indeterminate amount of time, the Fund should safely and conservatively earn interest for the benefit of customers.

Tr. pp. 1190.21-1190.22, 1191.10-1191.11.

Consumer Advocate's Position

The Consumer Advocate addressed the proposed Storm Reserve Fund through witness Morgan who testified the Fund is not necessary at this time. Tr. p. 651.19. Water utilities, unlike electric utilities, are not particularly vulnerable to hurricane damage since a significant portion of their infrastructure is below ground. *Id.* In addition, adequate allowance for storm damage already is included in Blue Granite's cost of service. Tr. p. 651.20. Morgan asserts the \$200,000 Fund

Blue Granite seeks is unreasonable and not supported by sufficient historical storm damage data. Tr. p. 658.5. Blue Granite has experienced one year in the past ten years where a combination of two storms caused in excess of \$200,000 in storm restoration costs. *Id.* Morgan testified “it is unreasonable to establish a \$200,000 reserve because that level of expense was incurred due to a one-time and unusual experience where there were two hurricanes that were back to back in a short span of time.” *Id.* The current process of deferral accounting treatment is sufficient for such unusual occurrences. *Id.*

While the Consumer Advocate’s position is the Fund is not needed to provide safe and reliable service, the Consumer Advocate agrees the safeguards ORS recommends are reasonable if the Commission approves the creation of a Fund. Tr. p. 658.7.

Commission’s Finding

The Commission has carefully considered the evidence and arguments presented. As stated by ORS, Blue Granite is obligated to restore service within the time frames required under the Commission’s regulations, regardless of whether it has the Fund it proposes. The Commission approves the creation of a Storm Reserve Fund with the modifications ORS proposes. The Fund shall be utilized for damage incurred as a result of only storms named by the World Meteorological Association. If Blue Granite receives any insurance proceeds for storm damage, those proceeds first must be used to replenish any funds withdrawn from the Storm Reserve Fund before any remaining insurance proceeds are utilized for any other purpose. Blue Granite shall provide annual reports to the Commission and ORS on the status of the Fund, including dates and amounts of withdrawals and expenditures, current balance, and current monthly surcharge. The Fund shall be subject to regulatory accounting standards as a reduction to base. The Fund must be kept in a separate account managed by Blue Granite to avoid any potential risk of commingling funds, and

the account should only be accessed when the parameters for doing so are met. Given that Blue Granite could be holding the customer money in the Fund for an indeterminate amount of time, the Fund should be placed in an account that safely and conservatively earns interest for the benefit of customers.

Additionally, the Fund is approved at the \$50,000 level ORS proposes. This level is more closely tied to the historical storm expenses experienced by the Company. The Commission agrees with witness Morgan that “it is unreasonable to establish a \$200,000 reserve because that level of expense was incurred due to a one-time and unusual experience where there were two hurricanes that were back to back in a short span of time.”

Blue Granite also shall provide for Commission consideration detailed procedures that outline, in a transparent manner, how the Fund will be used, accounted for, and reported to ORS and the Commission. Once the procedures are submitted, there shall be a period of time for parties to provide comments and objections prior to the Commission ruling on the proposed procedures.

H. Solids Interceptor Tank Tariff Language

Blue Granite, in its Application, requested authority to amend its tariff language and fees related to solids interceptor (“LETTS”) tanks to change the pumping charge from \$150 to the actual cost to access, pump, and service the tanks on a periodic basis.

Blue Granite’s Position

Blue Granite previously filed a request to amend its tariff in the manner it proposes in November 2018 in docket number 2018-361-S and subsequently withdrew that application without prejudice, indicating judicial economy would be best served by including the matter in its next general rate case. Blue Granite witness Mendenhall testified the actual cost to pump the LETTS tanks often exceeded \$150 and needed to be performed every three to five years. (Tr. p. 362.13,

ll. 12-14). Blue Granite identified 581 tanks in its service territory and indicated it owned 301 of the tanks. (Tr. p. 1191.3, ll. 4-5). Blue Granite typically hired a third-party contractor to perform the work. Blue Granite confirmed to ORS the actual cost it would seek to recover from customers is the total cost quoted by a contractor to perform the service without any additional costs or markup. (Tr. p. 4, ll. 8-11). If requested by the customer, Blue Granite would divide the pumping charge into twelve equal monthly installments. (Tr. p. 362.13, ll. 17-18).

ORS's Position

Blue Granite indicated that in advance of filing docket number 2018-361-S, it suspended charging customers the \$150 fee for pumping the tanks, although one instance was identified during 2018 to 2019 where a customer was charged. (Tr. p. 1190.4, ll. 4-8). Blue Granite provided ORS 30 instances of pumping charges during the test year. *Id.* ll. 8-9. The work generally was performed by three different third-party vendors during the test year, with the average cost being approximately \$750. *Id.* ll. 9-13. Blue Granite did not bill 29 customers for the approved \$150 pumping charge and included the full expense from the third-party vendors as an expense to be recovered from all customers. *Id.* ll. 13-15. ORS recommends a miscellaneous revenue adjustment of \$4,350 reflected in ORS's Adjustment Number 3 for imputed revenue for services Blue Granite was able to charge for pumping LETTS tanks but for which Blue Granite did not. Tr. p. 1213.8-1213.9. Blue Granite indicated it agreed to this adjustment. Tr. pp. 764.3-764.4.

For cost causation reasons, ORS does not oppose Blue Granite's request to change the treatment of LETTS tanks in its tariff such that customers who cause the expense pay the actual costs of the service, but ORS asserts the proposal should be modified to incorporate the following customer protections:

- 1) Require Blue Granite to provide an estimate of the actual cost of the pumping service to the customer prior to the work being scheduled and completed;
- 2) Allow customers to seek alternative options for the pumping services by obtaining quotes/estimates from qualified and appropriately licensed third-party vendors and contractors;
- 3) Require customers to approve and authorize Blue Granite providing pumping services in writing prior to service being performed;
- 4) The pumping charge may not exceed the estimate of the actual cost Blue Granite provided to the customer and the charge may not exceed the amount Blue Granite paid to any third-party vendor to perform the work;
- 5) If the customer chooses to use an alternative third-party vendor to perform services on their LETTS tank, Blue Granite may oversee and inspect the work but will not charge the affected customers for the personnel and overhead costs incurred in managing the LETTS tank-related work;
- 6) Require the customer to provide, in a timely manner, Blue Granite proof the pumping and service on the tank occurred;
- 7) If the customer authorizes Blue Granite to perform the work, require the pumping charge be included as a separate line item on the customer's next bill and allow the customer the choice to have the charge billed in twelve equal monthly installments; and
- 8) If an emergency condition arises that presents a health risk to the customer, the public, or the environment, Blue Granite may proceed with pumping the tank without giving the customer the opportunity to select a different vendor. Blue Granite shall present,

upon request, evidence supporting the need for immediate action. (Tr. p. 1190.7, l. 3-p. 1190.8, l. 9).

ORS provided proposed tariff language incorporating these modifications. The proposed language was admitted into the record at the hearing as Exhibit 38. In support of its position, ORS cited docket number 2007-359-WS and Order Number 2008-492 in that docket as a similar situation involving a different sewer service provider where customers were given the option to repair and maintain their own grinder pumps. (Tr. p. 1190.5, l. 5-p. 1190.6, l. 2).

At the evidentiary hearing, Mendenhall stated Blue Granite was in agreement with ORS's proposed modifications, with the exception of the exact definition of what constitutes an emergency condition under which Blue Granite could pump a tank without giving the customer the opportunity to select a different vendor. (Tr. p. 395, l. 8-p. 396, l. 5). Blue Granite did not provide an alternate definition for emergency condition than what is indicated in ORS's proposed tariff language.

Commission's Finding

The Commission approves Blue Granite's request to amend its tariff language and fees related to solids interceptor ("LETTS") tanks to change the pumping charge from \$150 to the actual cost to access, pump, and service the tanks on a periodic basis, with the changes ORS recommends to the proposal. The tariff language ORS proposes in Exhibit 38 and which is incorporated in Order Exhibit 3 also is approved, including the language contained therein regarding what constitutes an emergency condition. Blue Granite has provided no alternate definition for the Commission to consider.

**V. REVIEW OF THE EVIDENCE AND EVIDENTIARY CONCLUSIONS –
ADJUSTMENTS**

A. Service Revenues-Water (Adj. 1)

For the reasons discussed herein, this Commission finds the revenues detailed in Order Exhibits 1 and 2 to be just and reasonable.

B. Service Revenues- Sewer (Adj. 2)

For the reasons discussed herein, this Commission finds the revenues detailed in Order Exhibits 1 and 2 to be just and reasonable.

C. Miscellaneous Revenues (Adj. 3)

For the reasons discussed herein, this Commission finds the revenues detailed in Order Exhibits 1 and 2 to be just and reasonable.

D. Uncollectible Accounts (Adj. 4)

According to ORS witness Sullivan, ORS proposes to adjust uncollectible accounts associated with the Company's revenues after ORS's proposed accounting and pro forma adjustments. (Tr. p. 1115.6, ll. 2-3). The percentages used to calculate uncollectible accounts were provided by the Company and were verified and found reasonable by ORS. (Tr. p. 1115.6, ll. 3-4). Witness DeStefano testified that the Company agrees with ORS's proposed Service Uncollectible Account adjustment as it relates to the uncollectible expenses. (Tr. p. 764.4, ll. 1-2). No party contests the adjustment that ORS witness Sullivan has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

E. Salaries and Wages – Maintenance (Adj. 5)

According to witness Jackson, ORS proposes an adjustment in the amount of (\$1,344,062) to annualize salaries and wages as of October 31, 2019, based on updated information that was provided by Blue Granite. (Tr. p. 1133.3, ll. 3-5). Witness Jackson testified that ORS verified salaries and wages of the employees by reviewing paystubs from Blue Granite and calculating hourly rates and yearly salary amounts. (Tr. p. 1133.3, ll. 7-9). Witness DeStefano testified that the Company agrees with ORS's proposed Salaries and Wages— Maintenance adjustment. (Tr. p. 764.4, ll. 3-4). No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

F. Capitalized Time (Adj. 6)

Witness Jackson testified that ORS proposes an adjustment to reflect the capitalized time based on pro forma salaries. (Tr. p. 1133.3, ll. 11-12). According to witness Jackson, ORS verified the capitalized time percentages from data provided by Blue Granite as of June 30, 2019, and used those percentages on the annualized salary and wages data from October 31, 2019, to propose an adjustment of \$73,614. (Tr. p. 1133.3, ll. 13-15). According to witness DeStefano, the Company agrees with ORS's proposed Capitalized Time adjustment. (Tr. p. 764.4, ll. 3-4). No party contests the adjustment that ORS witness Jackson has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

G. Purchased Water and Sewer (Adj. 8)

ORS's total proposed purchased water and sewer adjustment is \$3,178,824,¹⁶ which is comprised of the purchased water and sewer adjustments 8a and 8b detailed below. (Tr. p. 1115.6, ll. 14-15).

1. Purchased Water and Sewer Deferral Amortization (Adj. 8a)
ORS's Position

Witness Briseno testified that ORS proposes an adjustment in the amount of \$854,532 to adjust expenses for purchased water and sewer deferral amortization over a three (3) year period, whereas Blue Granite proposes an adjustment in the amount of \$934,656 over a three (3) year period. (Tr. p. 1128.3, ll. 5-7). Witness Briseno testified that the difference in adjustment amounts is attributable to the following:

1. ORS's proposal to amortize the prior Commission approved water deferrals amortization through April 30, 2020, due to new rates going into effect in May 2020, whereas Blue Granite proposed to amortize the deferrals through December 30, 2019;
2. ORS's proposal to update the purchased water and sewer deferral charges with actual charges through December 18, 2019, provided by Blue Granite to ORS by the audit cutoff date of December 20, 2019;¹⁷
3. ORS's proposal to remove \$49,023 of prior balances, hydrant fees, and fire fees that should not have been included in the deferrals per Blue Granite's response to ORS Audit Request 33; and

¹⁶ See Hearing Exhibit 34, "Purchased Sewer and Water – Pass Through" adjustment.

¹⁷ Blue Granite included estimates in its calculation of this adjustment.

4. ORS's proposal to reduce the purchased water deferrals by \$50,929 for nonrevenue water in excess of 10%.¹⁸

(Tr. p. 1128.3, ll. 7-22).

BGWC's Position

Blue Granite's opposition to this adjustment stems largely from its opposition to ORS's proposed non-revenue water adjustment.

Commission's Finding

For the reasons discussed herein, particularly in paragraph IV(C), the Commission approves ORS's proposed adjustment.

2. Purchased Water and Sewer Expenses Going Forward (Adj. 8b)

ORS's Position

According to witness Briseno, ORS proposes an adjustment in the amount of \$2,303,674 to adjust expenses for purchased water and sewer expenses on a going-forward basis, whereas the Company proposes an adjustment in the amount of \$2,640,647. (Tr. p. 1128.4, ll. 1-3). Witness Briseno testified that the difference in adjustment amounts is attributable to the following:

1. ORS's proposal to adjust expenses for rate increases from Blue Granite's bulk water and sewer suppliers based on the twelve months of supplier water and sewer bills through November 30, 2019, as supplied by the Company in response to ORS Audit Request 28;
2. ORS's proposal to adjust for various business units ("BU") within the twelve-month period ending November 30, 2019, that experienced a change in rate from third party providers; and

¹⁸ This adjustment is discussed in greater detail in paragraph IV(C).

3. ORS's proposal to adjust purchased water expense by (\$271,930) to account for non-revenue water in excess of 10%.¹⁹

(Tr. p. 1128.4, ll. 3-20).

According to witness Briseno, ORS updated the non-revenue water in excess of 10% as discussed in the Revised Surrebuttal Testimony of ORS witness Maurer from (\$271,930) to (\$251,311), which changes this adjustment from \$2,303,674 to \$2,324,292. (Tr. p. 1129.2, ll. 15-17).

BGWC's Position

Blue Granite's opposition to this adjustment stems largely from its opposition to ORS's proposed non-revenue water adjustment.

Commission's Finding

For the reasons discussed herein, particularly in paragraph IV(C), the Commission approves ORS's proposed adjustment.

H. Maintenance and Repair (Adj. 9)

According to witness Sullivan, ORS's total maintenance and repair adjustment is \$937,334,²⁰ which is comprised of the maintenance and repair adjustments detailed below. (Tr. p. 1115.7, ll. 5-6).

1. **Deferred Maintenance Adjustment (Adj. 9a)**

According to witness Briseno, ORS proposes an adjustment in the amount of (\$232,402) to adjust expenses for the amortization of Blue Granite's deferred maintenance expenses over a five (5) year period. (Tr. p. 1128.4, ll. 22-23, p. 5, ll. 2-4). The Company agrees with ORS's proposed Deferred

¹⁹ This adjustment is discussed in greater detail in the testimony of witness Maurer.

²⁰ See Hearing Exhibit 34, "Maintenance and Repair" adjustment.

Maintenance Adjustment. (Tr. p. 764.4, l. 5). No party contests the adjustment that ORS witness Briseno has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

2. ClearWater Solutions-Maintenance and Repair (Adj. 9b)
ORS's Position

According to witness Briseno, ORS proposes an adjustment in the amount of \$851,676 to adjust expenses for the removal of water and wastewater operator expenses that Blue Granite will no longer incur because it has entered into a contract with ClearWater Solutions to run and maintain their Midlands Bus. (Tr. p. 1128.5, ll. 13-16). Witness Briseno also testified that this adjustment incorporates the ClearWater Solution's contract costs that are applicable to Water Territory 1, Water Territory 2, and Sewer on a going forward basis. (Tr. p. 1128.5, ll. 16-18). According to witness DeStefano, the Company agrees with ORS's proposed ClearWater Solutions – Maintenance and Repairs adjustment. (Tr. p. 764.4, ll. 6-7). No party contests the adjustment that ORS witness Briseno has proposed.²¹

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

3. Amortization of Litigation Deferrals, Deferred Storm Costs, Decommissioning Costs and Net Book Value ("NBV") of Decommissioned Assets (Adj. 9c)

ORS's Position

According to witness Briseno, ORS proposes an adjustment in the amount of \$345,590 to adjust expenses for the amortization of the following: Administrative Law Court Cases — DHEC

²¹ We note no party disputed the ClearWater-related costs in prefiled testimony, the Town of Irmo did challenge these costs through cross-examination. We believe the adjustments, as proposed by ORS, to be just and reasonable based on our consideration of the record.

Permit Denial and 1-20 Interconnect, 1-20 Interconnect Phase 2, 2016 storm costs, Hurricane Florence Storm Costs, Stonegate Water Treatment Plant decommissioning and NBV, and Friarsgate WWTP decommissioning and NBV, whereas the Company proposes an adjustment in the amount of \$483,212. (Tr. p. 1128.6, ll. 14-19). Witness Briseno testified that the difference in adjustment amounts is attributable to the following:

1. ORS's proposal to use the balance of \$159,612 for the 1-20 Interconnect Phase 2 approved by the Commission in Docket No. 2017-292-WS;²²
2. ORS's proposal to amortize the 1-20 Interconnect Phase 2, 2016 storm costs, and Hurricane Florence storm costs balances through April 30, 2020, due to new rates going into effect in May 2020;²³
3. ORS's proposal to update the decommissioning expenses and ALC case — DHEC Permit Denial expenses based upon the Company's update to their workpaper X provided to ORS by the audit cutoff date of December 20, 2019;
4. ORS's proposal to decrease the Company's calculation of the NBV of Stonegate WTP decommissioning by \$14,432 to account for an error in the Company's calculation of the removal of the Stonegate WTP based upon the Company's response to ORS Audit Request 22;
5. ORS's proposal to amortize the NBV of the Stonegate WTP decommissioning over 29.56 years, as compared to the Company's 19.82 years, based upon ORS witness Garrett's depreciation rates applicable to the object accounts that were affected by the removal of the Stonegate WTP; and

²² Blue Granite used \$158,845 in its calculation.

²³ Blue Granite proposed to amortize the costs through December 30, 2019.

6. ORS's proposal to amortize the NBV of the Friarsgate WWTP decommissioning over 32.40 years, as compared to the Company's 19.72 years, based upon ORS witness Garrett's depreciation rates applicable to the object accounts that were affected by the removal of the Friarsgate WWTP.

(Tr. p. 1128.6, ll. 19-23, p. 7, ll. 1-19).

Witness Briseno testified that ORS updated the amortization periods for the decommissioned plants to correct formula errors that resulted in a calculation of 29.64 years for the Stonegate Water Treatment Plant and 31.12 years for the Friarsgate Wastewater Treatment Plant. (Tr. p. 1129.2, ll. 20-23, p. 3, ll. 1-8). This adjustment totals \$354,374 based upon the updated calculations.²⁴ ORS Adjustment 34b totals \$4,818,972 based upon the updated calculations. (Tr. p. 1129.2, l. 22, p. 3, l. 1).

BGWC's Position

According to witness DeStefano, because Blue Granite's depreciation rates have been very low, it has assets at the end of their useful but with a net book value remaining. (Tr. p. 764.29, ll. 19-20). As a result, witness DeStefano testified that customers have received the benefit of the full life of these assets, but the Company has under-recovered the cost of the assets. (Tr. p. 764.30, ll. 1-3). Witness DeStefano argues that utilizing a longer depreciation period than is reflected in Witness Spanos's proposed depreciation rates would result in unreasonably extend the period of under-recovery for Blue Granite of these assets. (Tr. p. 764.30, ll. 4-7).

Commission's Finding

²⁴ The updating of this adjustment also impacts the Unamortized Balances for Decommissioned Assets, NBV on Decommissioned Assets and Excess Deferred Income Taxes adjustment, which is discussed in paragraph FF(b) of this Order.

While it may be true that witness Garrett's proposed depreciation rates result in a longer recovery period for Blue Granite of certain assets, that alone cannot drive the Commission's decision. For the reasons discussed herein, particularly in paragraph IV(B), the Commission approves ORS's adjustment.

4. Normalize Storm Costs (Adj. 9d)

Blue Granite proposed to recover costs associated with storm damage as part of its base rates through the inclusion of an expense of \$51,802, which was the amount of storm restoration expenses experienced during the test year. Tr. p. 1190.15. ORS has proposed a normalization adjustment. *Id.* Blue Granite is not opposed to normalization adjustment but disagrees about how it should be calculated. Tr. pp. 764.21-764.22.

Blue Granite's Position

Blue Granite asserts a more recent average consisting of the past five years should be used. *Id.* Witness DeStefano asserted South Carolina has experienced more severe storms in recent years, which in turn has resulted in "consistently higher levels of storm recovery costs." *Id.* This five-year average is \$42,494. Tr. p. 764.22. Blue Granite also excludes the costs associated with Hurricanes Florence and Michael from this calculation. *Id.*

ORS's Position

ORS proposed a normalization adjustment based on average storm expenses during the past ten years, excluding the highest and lowest years and costs associated with Hurricanes Florence and Michael in September/October 2018 for which Blue Granite was granted deferred accounting treatment. Tr. p. 1190.15. Using this methodology, ORS calculated the ten-year average at \$28,320.51. *Id.* For 2019, ORS prorated the amount based on information Blue Granite

provided on November 22, 2019. *Id.* Utilizing this average, ORS recommends a normalization adjustment of (\$23,481). *Id.*

ORS consistently has used this methodology when proposing normalization of storm costs in past rate proceedings. Tr. pp. 1191.7-1191.8; *see, e.g.*, Docket No. 2018-319-E, Order No. 2019-323. The Commission approved this approach in Order Number 2019-323. *Id.* ORS asserts its position is a more representative method to ensure enough data is gathered and used over a reasonable period of time and allows a more complete assessment of costs over time. Tr. p. 1191.8. Using a five-year average does not allow for significant outliers that occur due to fluctuations in annual costs to be determined and removed from the average. *Id.*

Commission's Finding

After carefully reviewing the parties' position, the Commission approves the (\$23,481) normalization adjustment proposed by ORS. The Commission previously approved the methodology proposed by ORS in Docket Number 2018-319-E. Order Number 2019-323, p. 26. ORS's approach constitutes a more representative method to ensure enough data is gathered and used over a reasonable period of time and allows a more complete assessment of costs over time. Using a five-year average does not allow for significant outliers that occur due to fluctuations in annual costs to be determined and removed from the average. Moreover, the number and severity of storms varies from year-to-year. DeStefano is not a climatologist and is not otherwise qualified to predict future storm levels.

5. Rebranding-Maintenance (Adj. 9e)

ORS's Position

According to ORS witness Jackson, ORS proposes to adjust maintenance and repair for rebranding expenses within the test year because rebranding expenses should not be allowable for

ratemaking purposes as they are not necessary to provide water and wastewater services and do not provide a benefit to customers. (Tr. p. 1133.3, ll. 17-20). Witness Jackson testified that ORS views rebranding expenses as comparable to the transition costs deemed not recoverable from customers in Commission Order No. 2018-804 pertaining to South Carolina Electric and Gas's ("SCE&G") merger with Dominion Energy. (Tr. p. 1133.3, ll. 20-22). The amount Blue Granite identified as rebranding for maintenance is \$12,832. (Tr. p. 1133.4, l. 2). ORS verified the expenses identified by the Company and proposes an adjustment of (\$12,832). (Tr. p. 1133.4, ll. 2-3). According to witness DeStefano, the Company agrees with ORS's proposed Rebranding – Maintenance adjustment. (Tr. p. 764.4, ll. 8-9).

No party contests the adjustment that ORS has proposed and this Commission finds that rebranding expenses are comparable to the transition costs that were not recoverable from customers in Commission Order No. 2018-804. Additionally, these rebranding expenses are not necessary to provide water and wastewater services and do not provide a benefit to customers. Based on witness DeStefano's testimony, these costs would not be reasonable and prudent. (*See* Tr. p. 800, ll. 11-15 (costs are deemed "reasonable and prudent if they're . . . providing service to customers and providing benefit to the customers.")) As a result, the evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

I. ClearWater Solutions – Maintenance Testing (Adj. 10)

According to witness Briseno, ORS proposes an adjustment in the amount of (\$174,416) to adjust for the removal of testing expenses that Blue Granite will no longer incur because entered into a contract with ClearWater Solutions to run and maintain their Midlands Bus. (Tr. p. 1128.8, ll. 1-3). According to witness DeStefano, this adjustment as it results in no change from Blue

Granite's filed application. (Tr. p. 764.4, ll. 19-22). No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

J. Meter Reading (Adj. 11)

Witness Sullivan testified that ORS's total meter reading adjustment is (\$72,815), and is comprised of the meter reading adjustments detailed below. (Tr. p. 1115.8, ll. 13-14).

1. ClearWater Solutions – Meter Reading (Adj. 11a)

According to witness Briseno, ORS proposes an adjustment in the amount of (\$44,748) to adjust for the removal of meter reading expenses that Blue Granite will no longer incur because it entered into a contract with ClearWater Solutions to run and maintain their Midlands Bus. (Tr. p. 1128.8, ll. 5-7). According to witness DeStefano, this adjustment results in no change from Blue Granite's filed application. (Tr. p. 764.4, ll. 19-22). No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

2. Remove Meter Reading Expenses due to AMI (Adj. 11b)

Witness Jackson testified that ORS proposes an adjustment of (\$28,067) to reflect the reduction in meter reading expenses due to the deployment of AMI in the Lake Wylie subdivision ("Lake Wylie"). (Tr. p. 1133.4, ll. 5-6). According to witness DeStefano, this adjustment results in no change from Blue Granite's filed application. (Tr. p. 764.4, ll. 19-22). No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

K. Chemicals (Adj. 12)

According to ORS witness Sullivan, ORS's total chemicals adjustment is (\$99,043), which is comprised of the chemical adjustments detailed below. (Tr. p. 1115.9, ll. 2-3).

1. ClearWater Solutions – Chemicals (Adj. 12a)

Witness Briseno testified that ORS proposes an adjustment in the amount of (\$67,524) to adjust for the removal of chemical expenses that Blue Granite will no longer incur because it entered into a contract with ClearWater Solutions to run and maintain their Midlands Bus. (Tr. p. 1128.8, ll. 9-11). According to witness DeStefano, this adjustment results in no change from Blue Granite's filed application. (Tr. p. 764.4, ll. 19-22). No party contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

2. Remove Chemicals Associated with Decommissioned Plants (Adj. 12b)

According to witness Jackson, ORS proposes an adjustment of (\$31,519) to adjust the test year's chemical expenses for the removal of chemical expenses associated with the decommissioned Stonegate and Friarsgate treatment plants. (Tr. p. 1133.4, ll. 10-12). According to witness DeStefano, this adjustment results in no change from Blue Granite's filed application. (Tr. p. 764.4, ll. 19-22). No party contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

L. Transportation (Adj. 13)

According to witness Sullivan, ORS's total transportation adjustment is (\$118,674), which comprised of the transportation adjustments detailed below. (Tr. p. 1115.9, ll. 14-15).

1. ClearWater Solutions – Transportation (Adj. 13a)

According to witness Briseno, ORS proposes an adjustment in the amount of (\$110,230) to adjust for the removal of transportation expenses that Blue Granite will no longer incur because it entered into a contract with ClearWater Solutions to run and maintain their Midlands Bus and the sale of 15 vehicles to ClearWater Solutions as part of the contract. (Tr. p. 1128.8, ll. 13-17). According to witness DeStefano, the Company agrees with ORS's proposed ClearWater Solutions – Transportation Repairs adjustment. (Tr. p. 764.4, ll. 6-7). No party contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

2. Rebranding-Transportation (Adj. 13b)

Witness Jackson testified that ORS proposes to adjust transportation for rebranding expenses within the test year because rebranding expenses should not be allowable for ratemaking purposes as they are not necessary to provide water and wastewater services and do not provide a benefit to customers. (Tr. p. 1133.4, ll. 15-18). ORS proposes an adjustment in the amount of (\$8,444). (Tr. p. 1133.4, ll. 21-23). According to witness DeStefano, the Company agrees with ORS's proposed Rebranding –Transportation adjustment. (Tr. p. 764.4, ll. 8-9). No party contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

M. Salaries and Wages-General (Adj. 14)

According to witness Jackson, ORS proposes an adjustment in the amount of \$538,807 to annualize salaries and wages as of October 31, 2019, based on updated information that was provided by Blue Granite. (Tr. p. 1133.5, ll. 4-6). According to witness DeStefano, the Company agrees with ORS's proposed Salaries and Wages— General adjustment. (Tr. p. 764.4, ll. 3-4). No party contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

N. Office Supplies and Other Office Expenses (Adj. 15)

According to witness Sullivan, ORS's total office supplies and other office expenses adjustment is (\$1,564,724), which is comprised of the office supplies and other office expense adjustments detailed below. (Tr. p. 1115.10, ll. 5-7). Adjustment 15 has three subparts, 15a to 15c. Only Adjustment 15b, for expenses relating to the Company's proposed Round Up program and proposed Annual Rate Adjustment Mechanism, is in dispute.

1. Company Excluded Items (Adj. 15a)

Witness Sullivan testified that ORS proposes an adjustment to office supplies and other office expenses for the removal of expenses from the test year that the Company determined were not allowable for ratemaking purposes. (Tr. p. 1115.10, ll. 9-11). ORS's recommended adjustment of (\$1,542,022) removes the same items that Blue Granite removed; however, it also correctly removes \$8,268 of penalties, fines and contributions as recorded on the Company's books and records. (Tr. p. 1115.10, ll. 14-17). According to witness Sullivan, it appears the Company inadvertently removed bank charges rather than contributions in the calculation of its adjustment. (Tr. p. 1115.10, ll. 17-18). According to witness DeStefano, the Company agrees with ORS's

proposed Company Excluded Items adjustment. (Tr. p. 764.4, ll. 8-9). No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

2. Purchased Services Annual Filing Notices and Round-Up Inserts or Flyers (Adj. 15b)

For the reasons discussed herein, particularly in paragraph IV(F), the Commission approves ORS's adjustment.

3. Non-Allowables-Office Supplies & Other Office Expenses (Adj. 15c)
ORS's Position

According to ORS witness Jackson, ORS proposes to adjust office supplies and other office expenses by (\$22,702) for expenses within the test year that are not necessary to provide water and wastewater services and do not provide a benefit to customers. (Tr. p. 1133.5, ll. 12-14; Hearing Exhibit 34). Witness Jackson included within this adjustment the following:

- Office expenses identified by the Company related to the rebranding of CWS, to BGWC 16 in Audit Request #12;²⁵
- Chamber of Commerce ("COC") membership dues;²⁶
- Flower arrangements;
- Donations to parks and environmental organizations;
- Scholarships and Sponsorships;

²⁵Additionally, ORS found several rebranding expenses that were not identified by Blue Granite.

²⁶ ORS proposes that Fifty percent of these expenses be removed.

- Expenses selected for testing for which the Company failed to provide sufficient supporting documentation.²⁷

Witness DeStefano testified that the Company agrees with ORS's proposed Non-Allowables – Office Supplies & Other Office Expenses adjustment. (Tr. p. 764.4, ll. 8-9).

No party contests the adjustment that ORS has proposed. Additionally, this Commission concurs with witness Jackson that the listed expenditures in this adjustment are not necessary to provide water and wastewater service and do not provide a benefit to customers. As a result, the evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

O. Regulatory Commission Expense (Adj. 16)

According to witness Sullivan, ORS's total regulatory commission expense adjustment is \$61,813,²⁸ which is comprised of the regulatory commission expense adjustments detailed below. (Tr. p. 1115.11, ll. 12-13).

1. Rate Case Expenses (Adj. 16a)

ORS's Position

Witness Sullivan testified that ORS proposes an adjustment to regulatory commission expense for the amortization of rate case expenses over a three (3) year period. (Tr. p. 1115.11, ll. 15-16). ORS's adjustment includes \$232,435 of rehearing expenses based on updated supporting documentation provided by the Company and \$116,608 of prior unamortized rate case expenses as of April 30, 2020. (Tr. p. 1115.11, ll. 21-23). ORS's adjustment also includes actual incurred current rate case expenses based on supporting documentation provided by the Company as of the

²⁷ These items were disallowed due to no clear business purpose or no itemized receipt.

²⁸ See Hearing Exhibit 34, "Regulatory Commission Exp." adjustment.

audit cutoff date of December 20, 2019, of \$145,148, for total rate case expenses of \$494,191. (Tr. p. 1115.11, l. 23, p. 12, ll. 1-3). The Company's per book rate case expense amount was \$108,294, resulting in an ORS adjustment of \$61,813. (Tr. p. 1115.12, ll. 6-7, p. 1116.2, ll. 11-13). Subsequent to the hearing, Blue Granite submitted to ORS, and ORS verified additional rate case expenses in the amount of \$345,590.

BGWC's Position

According to witness DeStefano, the Company agrees with ORS's proposed Rate Case Expenses adjustment. (Tr. p. 764.4, ll. 12-13).²⁹

Commission's Finding

With the exception of \$7,143 in legal expenses, which is addressed in paragraph O(5) below, no party contests the adjustment that ORS has proposed. As a result, the evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable. All just and reasonable rate case expenses, including the expenses incurred after the hearing, are reflected in Order Exhibit 1.

2. Purchased Services-Annual Rate Adjustment Mechanism Legal Fees (Adj. 16b)

For the reasons discussed herein, particularly in paragraph IV(D), the Commission approves ORS's adjustment.

P. Pension & Other Benefits (Adj. 17)

According to witness Sullivan, ORS's total pension and other benefits adjustment is (\$165,041), which is comprised of the pension and other benefits adjustments detailed below. (Tr. p. 1115.12, ll. 15-16).

²⁹ Blue Granite accepts ORS's proposal regarding rate expenses with the exception of ORS's recommendation to exclude \$7,143 in legal expenses related to services prior to the Test Year.

1. Pensions & Other Benefits (Adj. 17a)

Witness Jackson testified that ORS proposes an adjustment in the amount of (\$161,830). (Tr. p. 1133.6, ll. 10-12). According to witness DeStefano, the Company agrees with ORS's proposed Pension & Other Benefits adjustment. (Tr. p. 764.4, ll. 3-4). No party contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

2. Service Awards (Adj. 17b)

ORS's Position

According to witness Jackson, ORS proposes to adjust pension and other benefits for service awards within the test year by (\$3,211), which include service awards for employees who reach career milestones. (Tr. p. 1133.6, ll. 14-15, p. 7, l. 1; Hearing Exhibit 34). Witness Jackson testified that a 65" LED Curved Samsung TV and a 1.15 carat diamond ring were included in the sample selected and analyzed by ORS. (Tr. p. 1133.7, ll. 1-3). According to witness Jackson, these service awards should be treated as expenses that are not necessary to provide water and wastewater services and do not provide a benefit to customers. (Tr. p. 1133.7, ll. 3-5). As a result, ORS proposes an adjustment in the amount of (\$3,211). (Tr. p. 1133.7, ll. 5-6).

Additionally, witness Jackson testified that Blue Granite's employee service awards, which ORS proposes to remove, are not based on any performance criteria but instead are based on length-of-service. (Tr. p. 1134.2, ll. 7-10). Witness Jackson testified that the removal of these types of awards is consistent with Commission Order Nos. 1991-595 on page 23, 1994-1229 on page 26, 1996-15 on page 31 and most recently Commission Order 2019-341 on page 81, which stated "[i]t is the established practice of this Commission to disallow...length of service awards." (Tr. p. 1133.2, ll. 10-14).

BGWC's Position

According to witness Denton, the awards referenced by ORS are consistent with the Company's market-competitive compensation package, and the awards program supports the Company's efforts to successfully attract and retain well-qualified employees. (Tr. p. 355.8, ll. 22-23, p. 355.9, l. 1-2). Accordingly, witness Denton testified that he believes that the expense incurred in making these employee awards was prudently incurred. (Tr. p. 355.9, ll. 2-3). Additionally, witness Denton made a note that the amount Blue Granite seeks to recover from rate payers for these awards is "only a nominal portion of overall employee compensation expense." (Tr. p. 355.9, ll. 2-4).

Commission's Finding

It is the longstanding practice of this Commission to disallow "safety and length of service awards" as well as "other miscellaneous gifts and awards." (Order No. 1994-1229 at 25; *see also* Order No. 1996-15 at 30 (disallowing recovery for "employee awards").) These expenses "have been traditionally classified as non-operating, or 'below-the-line,' expenses for ratemaking purposes." (Docket No. 79-196-E, Order No. 79-730 at 67; *accord* Docket No. 79-196-E, Order No. 80-375 at 61; Docket No. 89-178-E, Order No. 90-75 at 9.) The record in this case clearly reflects that these expenses are not necessary to provide water and wastewater services and only have a very attenuated link to benefiting customers. Additionally, it is clear that ORS has reasonably challenged the ability of Blue Granite to recover expenses associated with these service awards. As a result, we conclude that the "specter of imprudence" has been raised. *See Utils. Servs.*, 392 S.C. at 110, 708 S.E.2d at 762 (citing *Hamm*, 309 S.C. at 286-87, 422 S.E.2d at 112-13).

During the night hearings held in this Docket, this Commission heard from concerned citizens who spoke in opposition to Blue Granite's request to increase rates. A commonly voiced theme went to the difficulty in paying Blue Granite's relatively high bills. Rather than take a step towards mitigating the rate impact felt by customers, the testimony given by the Company states that this amount is "only...nominal" and should be recovered from Blue Granite's customers. It is unreasonable to charge customers for expenses not reasonably necessary to providing adequate and safe water and wastewater service, regardless of the utility's opinion regarding the amount. As a result, we find that the substantial evidence on the whole record supports the conclusion that Blue Granite should not recover these length-of-service awards.

Q. Rent (Adj. 18)

ORS's Position

According to witness Sullivan, ORS proposes an adjustment in the amount of \$84,839 to rent expense for pro forma annualized leases. (Tr. p. 1115.13, ll. 5-6). The Company proposes an adjustment of \$95,826 and the variance is attributable to the ORS proposal to decrease the Greenville office annual lease expense by \$11,019, to correctly allocate lease expense for 2 employees that are assigned to the Atlantic Division based on Company response to Audit Request 17, which stated only 34.94% of their duties are applicable to Blue Granite, and proposing to increase the WSC Public Storage annual lease expense charged to Blue Granite by \$33 based upon the lease agreement. (Tr. p. 1115.13, ll. 9-14).

In response, witness DeStefano testified that if these two Greenville employees' salaries are allocated based upon their work, rent expense should be increased by \$18,568 to account for certain Charlotte office employees. Witness Sullivan testified that ORS does not agree with the Company's proposal to increase the rent expense by \$18,568 for employees of the Charlotte office.

(Tr. p. 1116.2, ll. 14-16). Witness Sullivan testified that witness DeStefano's rebuttal testimony is the first time Blue Granite asserted that employees of the Charlotte office perform services for Blue Granite. (Tr. p. 1116.3, ll. 1-2). Witness Sullivan testified that to verify the calculations on DeStefano Rebuttal Exhibit No. 3 ORS would need the time to ask additional questions and send discovery requests for information to the Company. (Tr. p. 1116.3, ll. 5-7). Blue Granite provided this new data after an ORS established cut-off date and by providing the data only in rebuttal testimony, the Company has prevented ORS from conducting its usual audit on these expenses. (Tr. p. 1116.3, ll. 7-12). Because no audit could have reasonably been conducted on these expenses, witness Sullivan testified it would be unreasonable to allow the Company to recover expenses associated with the Charlotte office allocation. (Tr. p. 1116.3, ll. 12-13).

BGWC's Position

According to witness DeStefano, there are other Atlantic region employees that provide support for Blue Granite who are not primarily located in Greenville; however, Blue Granite did not request allocations of the Charlotte office costs for other Atlantic region and Shared Services employees that support Blue Granite out of simplicity. (Tr. p. 764.32, ll. 19-22). Witness DeStefano testified that the cost to serve Blue Granite customers accruing from Charlotte employees was \$18,568. (Tr. p. 764.32, l. 23). Blue Granite recommends that if ORS's Rent Expense adjustment to the Company's proposal of (\$11,019) is accepted by the Commission, then ORS's position should be further adjusted by a positive \$18,568 for a total Adjustment of \$103,407 to account for employees serving Blue Granite customers from the Charlotte regional office. (Tr. p. 764.33, ll. 2-6).

Commission's Finding

This Commission is bound by the evidence in the record and cannot inspect, audit, or examine public utilities because that is the sole responsibility of ORS.³⁰ Therefore, the Commission relies upon the evidence presented to it and that which exists in the record. While Blue Granite has seemingly presented evidence that may go to the \$18,568, for which it now seeks recovery, it failed to do so at the proper time, either in its Application or before the ORS review cut-off date. By taking this course of action, Blue Granite effectively prevented ORS from being able to conduct the required review of these costs. Because no review has been conducted that can substantiate the recovery of these costs, the Commission finds that it would be unreasonable to allow Blue Granite recovery of \$18,568.³¹

R. Insurance (Adj. 19)

According to witness Sullivan, ORS proposes an adjustment in the amount of \$163,371 to insurance to reflect the most recent insurance policy premiums and deductible expenses. (Tr. p. 1115.13, ll. 16-17). Witness Sullivan testified that ORS proposes an adjustment to per book insurance expense based upon an update, provided by the Company that results in an increase to the Company's per book insurance expense of \$166,273. (Tr. p. 1115.13, ll. 19-22). Additionally, ORS then proposes to increase the updated insurance expense by \$5,460 based upon the insurance policy supporting information provided by the Company and decrease the updated insurance expense by \$8,361 to remove an estimated increase to deductibles of 10%. (Tr. p. 1115.13, ll. 22-23, p. 14, ll. 1-2). According to witness DeStefano, the Company agrees with ORS's proposed Insurance adjustment. (Tr. p. 764.4, l. 10).

³⁰See S.C. Code Ann. § 58-3-56.

³¹This Commission would also note that it is troubled by the fact that Blue Granite would seek recovery from its customers expenses incurred for work done by employees in the Greenville office that was not for Blue Granite. Furthermore, when pressed on this issue, the justification given of "simplicity" raises serious concerns.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

S. ClearWater Solutions – Lawn Care (Adj. 20)

According to Anthony Briseno, ORS proposes an adjustment in the amount of (\$98,634) to adjust for the removal of lawn care expenses that Blue Granite will no longer incur because it entered into a contract with ClearWater Solutions to run and maintain their Midlands BUs. (Tr. p. 1128.9, ll. 12-15). According to witness DeStefano, the Company agrees with ORS's proposed ClearWater Solutions – Lawn Care adjustment. (Tr. p. 764.4, ll. 6-7). No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

T. Outside Services – Other (Adj 21)

According to witness Sullivan, ORS's total outside services adjustment is (\$188,889), which is comprised of the outside services adjustments detailed below.³²

1. Outside Services – Annualized Corix Allocations (Adj. 21a)

According to witness Sullivan, ORS proposes an adjustment in the amount of (\$341,915) to outside services to reflect the annualized Corix corporate cost allocations. (Tr. p. 1115.14, ll. 13-14). Witness DeStefano testified that the Company agrees with ORS's Outside Services – Annualize Corix Allocations adjustment. (Tr. p. 764.4, l. 11). No party contests the adjustment that ORS has proposed.

³² See Hearing Exhibit 34, "Outside Services – Other." adjustment.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

2. AMI Data Support, York County Franchise Fees and York County Asset Lease (21b)

According to witness Jackson, ORS proposes an adjustment of \$214,731 to reflect the data support costs for installing Lake Wylie AMI meters, along with the franchise and capital recovery fees incurred due to the York County franchise agreement. (Tr. p. 1133.7, ll. 9-11). According to witness DeStefano, the Company agrees with this adjustment as it results in no change from Blue Granite's filed application. (Tr. p. 764.4, ll. 19-22).

No party contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

3. Reclassify Annual Rate Adjustment Mechanism and Pumping Interceptor Tank Legal Expenses to Rate Case Expenses (21c)

According to witness Sullivan, ORS proposes to remove legal expenses associated with the annual rate adjustment mechanism and pumping interceptor tanks of \$36,864 from test year legal expenses and reclassify them as current rate case expenses as part of ORS Adjustment #16a to be amortized over a three-year period. (Tr. p. 1115.15, ll. 17-20). In response to a Commissioner question, witness Sullivan explained that while Blue Granite withdrew the dockets in which those expenses were incurred, those issues are part of this docket. (Tr. p. 1146, ll. 17-25, p. 1147, ll. 1-11). Because those issues are an item for discussion in this docket, witness Sullivan proposed the costs incurred and relating to those issues be considered rate cases expenses as part of this docket. (*Id.*) According to witness DeStefano, the Company agrees with ORS's proposed Reclassification of Annual Rate Adjustment Mechanism and Pumping Interceptor Tank Legal Expenses to Rate Case Expenses adjustment. (Tr. p. 764.4, ll. 12-13).

No party contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

4. Rebranding – Outside Services – Other (Adj. 21d)

ORS's Position

Witness Jackson testified that ORS proposes to adjust outside services for rebranding expenses within the test year. (Tr. p. 1133.7, ll. 17-18). ORS proposes an adjustment in the amount of (\$9,833). (Tr. p. 1133.8, ll. 2-3). According to witness DeStefano, the Company agrees with ORS's proposed Rebranding –Outside Services – Other adjustment. (Tr. p. 764.4, ll. 8-9). No party contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

5. Remove Legal Expenses – Outside Services – Other (21e)

ORS's Position

According to witness Sullivan, ORS proposes an adjustment in the amount of (\$22,210) to outside services for the removal of legal expenses recorded in Account 6025 – Legal Fees during the test year. (Tr. p. 1115.16, ll. 5-7). Witness Sullivan testified that ORS proposes to remove and defer \$31,788 of legal expenses associated with civil actions that have not yet concluded. (Tr. p. 1115.16, ll. 8-9). ORS also proposes to remove \$151,589 of legal expenses associated with Congaree River Keeper litigation that were not removed by Blue Granite. (Sullivan Direct, p. 16, ll. 9-11). According to witness Sullivan, the Commission ordered legal expenses for the Congaree River Keeper (“CRK”) litigation were not recoverable from customers in Order No. 2020-57. (Tr. p. 1115.16, ll. 11-13). Additionally, witness Sullivan testified that ORS proposes to add back \$168,310 to eliminate the effects of transactions related to I-20 condemnation. (Tr. p. 1115.16, ll. 13-14). According to witness Sullivan, ORS also proposes to remove \$7,143 of legal expenses for services performed outside of the test year. (Tr. p. 1115.16, ll. 21-22). In his surrebuttal testimony,

witness Sullivan testified that ORS agrees with the Company's proposal to include \$7,203 in post-test year legal expenses and that the updated adjustment of (\$15,008) reflects the inclusion of these costs. (Tr. p. 1116.4, ll. 3-9).

BGWC's Position

According to witness DeStefano, the Company agrees with ORS's proposed Removal of Legal Expenses-Outside Services— Other adjustment. (Tr. p. 764.4, ll. 12-13).³³

Commission's Finding

With the exception of ORS proposed adjustment to remove \$7,143 in legal expenses performed outside of the test year, no party contests the adjustment that ORS has proposed. The object of using test year figures is to reflect typical conditions. Rate applications must be based on a historic 12-month test period. S.C. Code Ann. Regs.103-823(A)(3). Any adjustments to the Test Year must reflect known and measurable changes in the Company's operating experience. *Heater of Seabrook, Inc. v. Public Serv. Comm'n of South Carolina*, 324, S.C. 56, 60, 478 S.E. 2d 826, 828 (1996) (citing *So. Bell*, 270 S.C. 590). Additionally, it is clear that ORS has reasonably challenged the ability of Blue Granite to recover expenses associated with these service awards. As a result, we conclude that the "specter of imprudence" has been raised. *See Utils. Servs.*, 392 S.C. at 110, 708 S.E.2d at 762 (citing *Hamm*, 309 S.C. at 286-87, 422 S.E.2d at 112-13).

The company has the benefit of choosing its test year. The period that Blue Granite chose to make its test year did not include the \$7,143 that ORS proposes to remove. These expenses occurred outside of the test year and Blue Granite has failed to show why these expenses are such that would be reflected in a typical year. As a result, the Commission concludes that ORS proposed

³³ Blue Granite accepts ORS's proposal regarding rate expenses with the exception of ORS's recommendation to exclude \$7,143 in legal expenses related to services prior to the Test Year.

adjustment is appropriate. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

U. Non-Utility Miscellaneous Expense (Adj. 22)

According to witness Sullivan, ORS proposes an adjustment in the amount of (\$442,691) to remove non-utility activity from the test year, which is related to CRK litigation and Commission-ordered adjustments. (Tr. p. 1115.17, ll. 1-3). According to witness DeStefano, the Company agrees with this adjustment as it results in no change from Blue Granite's filed application. (Tr. p. 764.4, ll. 19-22). No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

V. Miscellaneous (Adj. 23)

According to witness Sullivan, ORS's total miscellaneous adjustment is \$4,566, which is comprised of the miscellaneous adjustments detailed below. (Tr. p. 1115.17, ll. 5-6).

1. Customer Deposit Interest Expense (Adj. 23a)

Witness Sullivan testified that ORS proposes an adjustment in the amount of \$11,244. (Tr. p. 1115.17, ll. 8-11). According to witness DeStefano, the Company agrees with this adjustment as it results in no change from Blue Granite's filed application. (Tr. p. 764.4, ll. 19-22). No party contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

2. Non-Allowables – Miscellaneous (Adj. 23b)³⁴
ORS's Position

³⁴ Much of the arguments presented regarding this adjustment is detailed in paragraph IV(B).

According to witness Jackson, ORS proposes to adjust miscellaneous expenses, including dinners with alcohol in the amount of \$3,992, and items that were not supported by sufficient documentation in the amount of \$2,686, because they are not necessary to provide water and wastewater services and do not provide a benefit to customers. (Tr. p. 1133.8, ll. 5-9). Witness Jackson testified that the items that were removed for lack of supporting documentation did not contain a clear or valid business purpose or were not supported by itemized receipts. (Tr. p. 1133.8, ll. 9-10). As a result, ORS proposes an adjustment in the amount of (\$6,678). (Tr. p. 1133.8, ll. 10-11). According to witness DeStefano, the Company agrees with ORS's proposed Non-allowables Miscellaneous adjustment. (Tr. p. 764.4, ll. 8-9).

No party contests the adjustment that ORS has proposed. Additionally, this Commission does not allow recovery for costs associated with expenses that are not necessary to provide water and wastewater service and have no benefit to customers or failed to have proper supporting documentation. As a result, the evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

W. Depreciation Expense (Adj. 24)³⁵

According to witness Briseno, ORS proposes an adjustment in the amount of \$1,494,488 to adjust depreciation expense for known and measurable plant in service, whereas the Company proposes an adjustment in the amount of \$2,093,637. (Tr. p. 1128.10, ll. 1-3). Witness Briseno testified that the difference in adjustment amounts is attributable to the following:

³⁵Much of this adjustment is discussed in detail in paragraph IV(B).

1. The Company used estimates in its calculation of its adjustment to gross plant in service whereas ORS used actuals provided by the Company through the audit cutoff date of December 20, 2019;
2. ORS proposes to include depreciation expense associated with the Indian Pines Extraordinary Retirement, Purdy Shores & Foxwood Retirement and Engineering Expenses from prior rate cases in ORS's calculation of this adjustment; and
3. ORS proposes to use the depreciation rates calculated by ORS witness Garrett.

(Tr. p. 1128.10, ll. 3-12).

Commission's Finding

While it may be true that witness Garrett's proposed depreciation rates result in a longer recovery period for Blue Granite of certain assets, that alone cannot drive the Commission's decision. For the reasons discussed herein, particularly in paragraph IV(B), the Commission approves ORS's proposed adjustment.

X. Amortization of Contribution in Aid of Construction (Adj. 25)

According to witness Briseno, ORS proposes an adjustment in the amount of (\$538,846) to adjust Contributions in Aid of Construction ("CIAC") amortization expense for known and measurable changes to CIAC whereas the Company proposes an adjustment in the amount of (\$618,100). (Tr. p. 1128.10, ll. 14-16). Witness Briseno testified that the difference in adjustment amounts is attributable to the utilization of the depreciation rates provided by ORS witness Garrett and the updates to CIAC as provided by the Company to ORS by the ORS audit cutoff date of December 20, 2019. (Tr. p. 1128.10, ll. 16-19).

Commission's Finding

For the reasons discussed herein, particularly in paragraph IV(B), the Commission approves ORS's proposed adjustment. As a result of the approval of ORS's proposed depreciation rates, the Commission finds ORS's proposed adjustment 25 to be just and reasonable.

Y. Taxes Other Than Income (Adj. 26)

According to witness Sullivan, ORS's total taxes other than income adjustment is \$166,467, which is comprised of the taxes other than income adjustments detailed below. (*See* Hr'g Ex. 34, "Taxes Other Than Income." adjustment.)

1. Payroll Taxes (Adj. 26a)

According to witness Jackson, ORS proposes an adjustment in the amount of (\$33,874). (Tr. p. 1133.8, ll. 15-17). According to witness DeStefano, the Company agrees with ORS's proposed Payroll Taxes adjustment. (Tr. p. 764.4, ll. 3-4). No party contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

2. Gross Receipts Tax (Adj. 26b)

According to witness Sullivan, ORS proposes an adjustment to taxes other than income to reflect gross receipts taxes after the adjustments to accounting and pro forma revenue using a factor of .00527282. (Tr. p. 1115.18, ll. 9-11). According to witness DeStefano, the Company agrees with ORS's proposed Gross Receipts Tax adjustment. (Tr. p. 764.4, ll. 1-2). No party contests the adjustment that ORS has proposed. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

3. Pro Forma Property Taxes (Adj. 26c)

According to witness Briseno, ORS proposes an adjustment in the amount of \$386,017 to adjust pro forma property taxes for pro forma plant balances whereas the Company proposes an

adjustment in the amount of \$543,084. (Tr. p. 1128.10, ll. 21-23). Witness Briseno testified that the difference in adjustment amounts is attributable to the differences between ORS and the Company on the calculation of gross plant in service, accumulated depreciation, excess book value and CIAC. (Tr. p. 1128.10, l. 23, p. 1128.11, ll. 1-2).

Witness Briseno testified that ORS's calculation was updated to correctly capture the change made to the ORS adjustment regarding CIAC and to correct an error that was discovered during the calculation update. (Tr. p. 1129.3, ll. 16-17). Accordingly, this adjustment totals \$196,181 based upon the updated calculations. (Tr. p. 1129.3, ll. 17-18).

The Commission has accepted ORS's proposed treatment of adjustments for gross plant in service, accumulated depreciation, excess book value and CIAC, as detailed herein. As a result, the Commission finds ORS's proposed pro forma property tax adjustment to be just and reasonable.

Z. Federal Income Taxes (Adj. 27)

Witness Sullivan testified that ORS proposes to adjust federal income taxes after accounting and pro forma adjustments using the federal income tax rate of 21%. (Tr. p. 1115.18, l. 17-18). In addition, ORS and the Company propose to reduce the calculated federal income taxes by the amortization of protected and unprotected Excess Deferred Income Taxes ("EDIT"). (Tr. p. 1115.18, ll. 18-20). According to witness Sullivan, the amortization of EDIT reduces federal income taxes by \$129,064, which is comprised of \$50,402 related to protected EDIT and \$78,662 related to unprotected EDIT. (Tr. p. 1115.18, ll. 20-22). Witness Sullivan testified that ORS accepts the Company's calculation of \$129,064 for the amortization of EDIT that is included as a reduction to federal income taxes in this docket. (Tr. p. 1115.19, ll. 4-6). According to witness

DeStefano, the Company agrees with ORS's proposed Federal Income Tax adjustment. (Tr. p. 764.4, ll. 15-17).³⁶ No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

AA. State Income Taxes (Adj. 28)

Witness Sullivan testified that ORS proposes to adjust state income taxes after accounting and pro forma adjustments using the state income tax rate of 5%. (Tr. p. 1115.19, ll. 8-10).

According to witness DeStefano, the Company agrees with ORS's proposed State Income Tax adjustment. (Tr. p. 764.4, ll. 15-17).³⁷ No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

BB. Sale of Utility Property (Adj. 29)

According to witness Sullivan, ORS proposes an adjustment in the amount of \$20,253 to remove the sale of utility property from the test year for ratemaking purposes. (Tr. p. 1115.19, ll. 12-13). According to witness DeStefano, the Company agrees with this adjustment as it results in no change from Blue Granite's filed application. (Tr. p. 764.4, ll. 19-22). No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

CC. Interest During Construction ("IDC") (Adj. 31)

³⁶ Blue Granite accepts ORS's proposal regarding this adjustment, subject to the results of adjustments elsewhere that impact these figures.

³⁷ Blue Granite accepts ORS's proposal regarding this adjustment, subject to the results of adjustments elsewhere that impact these figures.

ORS's Position

According to witness Sullivan, ORS proposes an adjustment in the amount of \$172,635 to remove IDC from the test year for rate making purposes. (Tr. p. 1115.19, ll. 17-18). According to witness DeStefano, the Company agrees with this adjustment as it results in no change from Blue Granite's filed application. (Tr. p. 764.4, ll. 19-22). No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

DD. Gross Plant in Service (Adj. 32)

According to witness Briseno, ORS proposes an adjustment in the amount of \$415,288 to adjust gross plant in service to reflect plant additions and retirements since the last rate case as well as pro forms general ledger additions, pro forma plant, pro forma retirements, removal of the Company's Northbrook Office, removal of the Stonegate WTP and Friarsgate WWTP, and the removal of vehicles sold to Clearwater Solutions as part of the contract whereas the Company proposes an adjustment in the amount of \$2,600,952 (Tr. p. 1128.11, ll. 4-9). Witness Briseno testified that the difference in adjustment amounts is attributable to the following:

1. ORS opposes the recovery by the Company of \$495,206 in upgrades to its Greenville office;³⁸
2. ORS's proposal to increase gross plant in service by \$19,361 to correctly account for the Stonegate WTP decommissioning removal as the balance was removed twice by

³⁸ This adjustment is discussed in greater detail by ORS witness Maurer. *See generally* section IV.E, *supra*.

the Company.³⁹ A corresponding adjustment is made to accumulated depreciation for this as well;

3. ORS's proposal to adjust gross plant in service by \$98 for errors in the Company's calculation of the Northbrook Office removal per the Company's responses to ORS Audit Request 22; and
4. The use of estimates by Blue Granite in its calculation of its adjustment whereas ORS used actuals provided by the Company through the audit cutoff date of December 20, 2019.

(Tr. p. 1128.11, ll. 9-21, p. 12, ll. 1-3).

For the reasons already discussed in paragraph IV(E), we adopt ORS's recommended adjustment to disallow the costs of the Greenville office upgrades. The remaining ORS adjustments were not disputed by Blue Granite and the Commission finds that the substantial evidence on the whole records establishes that these adjustments are just and reasonable.

EE. Accumulated Depreciation (Adj. 33)⁴⁰

ORS's Position

According to witness Briseno, ORS proposes an adjustment in the amount of \$3,337,761 to adjust accumulated depreciation to reflect the updated gross plant in service whereas the Company proposes an adjustment in the amount of \$3,701,703. (Tr. p. 1128.12, ll. 5-7). Witness Briseno testified that the difference in adjustment amounts is attributable to the following:

1. ORS's proposal to adjust accumulated depreciation by \$4,929 to correctly account for the Stonegate WTP decommissioning removal;⁴¹

³⁹ Blue Granite admitted this was done in error in response to ORS Audit Request 22. (*See* Tr. p. 1128.7.)

⁴⁰ The basis of this adjustment is also discussed in detail in paragraph IV(B).

⁴¹ Blue Granite admitted in ORS Audit Request 22 that it incorrectly removed the balance twice.

2. ORS's proposal to adjust accumulated depreciation by (\$310,276) for prior rate case adjustments related to the Indian Pines extraordinary retirement, Purdy Shores & Foxwood retirement, and engineering expenses;
3. ORS's proposal to adjust accumulated depreciation by (\$98);⁴²
4. ORS's proposal to adjust accumulated depreciation for the depreciation expense ORS calculated utilizing ORS witness Garrett's depreciation rates applied to ORS's calculation of gross plant in service.

(Tr. p. 1128.12, ll. 7-21).

According to witness Briseno, ORS adjusted accumulated depreciation and accumulated amortization of CIAC using the proposed depreciation rates as proposed by ORS witness Garrett. (Tr. p. 1129.5, ll. 6-8). According to witness Briseno, Blue Granite's accounting books must balance, similar to a scale. (Tr. p. 1129.5, l. 15). Accordingly, witness Briseno testified that if one side of the scale receives increased depreciation expense, the other side of the scale should receive an equal increase to accumulated depreciation expense, otherwise the scale will not balance. (Tr. p. 1129.5, ll. 15-17). According to witness Briseno, when a journal entry is made to record a debit to depreciation expense, a corresponding credit entry is made in the same amount to accumulated depreciation. (Tr. p. 1129.6, ll. 13-14). Witness Briseno cited the Accounting for Public Utilities Manual, Chapter 7.08, Section 2, which states

Depreciation and amortization expenses are also based upon forecasted levels or upon historical levels with pro forma adjustments to recognize changes in depreciation rates or changes in test year depreciable plant (e.g., to recognize depreciation requirements on year-end plant levels or construction projects added to the rate base because of imminent completion and use). Some commissions, in annualizing depreciation expenses to a year-end rate base, have concurrently added an equal amount (or sometimes one-half of the expense amount) to the recorded yearend depreciation

⁴² This adjustment is made because Blue Granite admitted in ORS Audit Request 22 that it made calculation errors regarding the removal of its Northbrook Office. (See Tr. p. 1128.11.)

reserve. The adjustment to the reserve is generally based on the rationale that double entry accounting concepts will produce an equal impact on the accumulated provisions for depreciation and on the assumption that to fail to recognize the impact on net plant will result in an overstated rate base on a prospective basis.

(Tr. p. 1129.7, ll. 10-21).

He also cited the Accounting for Public Utilities Manual, Chapter 6.04, which states

Regulators typically require recording the depreciation reserve at the same depreciable group level used for calculating annual provisions.

(Tr. p. 1129.7, ll. 23-26).

Witness Briseno also discussed past Commission rulings, which concur with the ORS proposed treatment. According to witness Briseno, in Docket Nos. 2018-319-E, 2018-318-E, and 2017-292-WS, the Commission agreed with the ORS proposed methodology.⁴³ (Tr. p. 1129.7, ll. 28-30).

Finally, witness Briseno testified that by only utilizing 1.5% on the impact to accumulated depreciation and accumulated amortization of CIAC, Blue Granite fails to adjust for known and measurable changes. (Tr. p. 1129.5, ll. 11-13). According to witness Briseno, a rate case adjusts a test year for known and measurable changes to reflect the expected expense levels and rate base in an attempt to set fair and reasonable rates that provide a company an opportunity to earn a fair and reasonable return. (Tr. p. 1129.5, ll. 18-21). As a result, incorporating the impact of depreciation expense based upon proposed rates, without incorporating the impact of proposed rates in the calculation of accumulated depreciation is not adjusting a test year expense and rate base reflective of known and measurable changes. (Tr. p. 1129.5, l. 21, to p. 1129.6, l. 2). Witness Briseno testified that Blue Granite's proposal is not fair or reasonable for customers and that the practical result of it is that Blue Granite seeks to receive the benefit of increased depreciation

⁴³ See Order Nos. 2019-323, 2019-341, and 2018-345.

expense using the new depreciation rates to determine the revenue requirement without being required to make an equal offsetting entry to accumulated depreciation. (Tr. p. 1129.6, ll. 3-8).

BGWC's Position

Witness DeStefano testified that ORS has applied a depreciation adjustment to Accumulated Depreciation and an amortization adjustment to Accumulated Amortization that utilizes proposed depreciation/amortization rates, which would not be in effect until after issuance of the Commission's order, well after the audit cutoff of 12/20/2019. (Tr. p. 764.34, ll. 12-16). According to witness DeStefano, incorporating the effects of post-audit cutoff changes for only certain components of rate base—without the ability to similarly account for the effects of interrelated activity in Utility Plant in Service and CIAC (i.e., capital and CIAC additions after 12/20/2019)—creates a violation of the matching principle prioritized in utility regulation. (Tr. p. 764.34, ll. 16-19). As a result, witness DeStefano recommends the Commission approve a rate base balance with the balances of Blue Granite's components utilizing a consistent cutoff period for interrelated components, in this case Utility Plant in Service with Accumulated Depreciation and CIAC with Accumulated Amortization. (Tr. p. 764.34, ll. 20-23).

Commission's Finding

This Commission must enact standards that are just and reasonable. It is just and reasonable to comply with applicable regulatory accounting rules. Witness Briseno presented the objective and applicable accounting rules by which his accounting analysis was governed. Witness DeStefano failed to cite to such rules when discussing his analysis.

Additionally, while this Commission is not required to follow past practice, it cannot act arbitrarily in failing to follow established precedent. Witness Briseno presented evidence that this

Commission has taken similar positions to those recommended by ORS in this case, in previous cases.

Finally, witness DeStefano's testimony appears to be inconsistent. While he cited the matching principal, on cross examination he testified that when a depreciation expense is entered on the Blue Granite's books, an equal offsetting entry need not be made for accumulated depreciation. (Tr. p. 991, ll. 15-22).

For the above reasons, this Commission finds that the substantial evidence on the whole record indicates that the recommended adjustments proposed by ORS are just and reasonable.

FF. Deferred Charges (Adj. 34)

Witness Sullivan testified that ORS's total deferred charges adjustment is \$4,818,974,⁴⁴ which is comprised of the deferred charges adjustments detailed below. (Tr. p. 1115.20, ll. 5-6).

1. Unamortized Balance of Deferred Maintenance (Adj. 34a)

ORS's Position

According to witness Sullivan, Blue Granite proposes an adjustment of \$348,417 to include the unamortized balance of proposed deferred maintenance in deferred charges in rate base. (Tr. p. 1115.20, ll. 8-10). Blue Granite's adjustment included an unamortized amount of \$49,167 related to a wastewater treatment plant tank recoating and \$299,250 related to hydrotank inspections. (Tr. p. 1115.20, ll. 10-12). Blue Granite failed to provide any supporting documentation for the wastewater treatment plant tank recoating. (Tr. p. 1115.20, ll. 13-15). Witness Sullivan testified that ORS included annual amortization of \$62,926 for the hydrotank inspections as part of its Deferred Maintenance Adjustment.⁴⁵ (Tr. p. 1115.20, ll. 15-17). ORS's

⁴⁴ See Hearing Exhibit 34, "Deferred Charges" adjustment.

⁴⁵ See Paragraph H(a).

calculated unamortized balance for the hydrotank inspections is \$251,704. (Tr. p. 1115.20, ll. 17-18). ORS does not propose to include the unamortized balance of \$251,704 for the hydrotank inspections in deferred charges because unamortized balances for deferred maintenance should not be included in rate base. (Tr. p. 1115.20, ll. 19-21). According to witness Sullivan, position and treatment is consistent with the treatment of deferred maintenance for Carolina Water Service rate case Docket Nos. 2015-199-WS and 2017-292-WS, and for Kiawah Island Utility, Inc. rate case Docket No. 2018-257-WS. (Tr. p. 1115.20, ll. 21-22, p. 1115.21, ll. 1-2).

Witness Sullivan testified that Blue Granite proposes to include the unamortized balance of the hydrotank inspections in rate base because they are akin to a prepaid item or a traditional capital investment. (Tr. p. 1116.4, ll. 12-18). However, witness Sullivan testified that the expenses associated with the hydrotank inspection should not be in rate base for the following reasons:

First, the hydrotank inspections are maintenance expenses and not capital investments. Capital investments are traditionally included in rate base whereas maintenance expenses are not. Second, ORS's exclusion from rate base of the unamortized balance for these maintenance expenses is consistent with the treatment by the Commission in prior dockets as referenced in my direct testimony....Third, the amortization of the hydrotank inspections also serves as a normalizing adjustment. Including the entire costs of the tank inspections in expenses for the determination of the revenue requirement in this docket would not be fair to customers as the costs for the tank inspections will not be incurred on a yearly basis. Nor would it be fair to the Company to exclude all the costs associated with the tank inspections although they will not be incurred every year. Therefore, the reasonable approach is to allow the Company recovery of the costs associated with the hydrotank inspections over a five (5) year period since they are performed every five (5) years based on the rebuttal testimony of Company witness DeStefano.

(Tr. p. 1116.5.)

BGWC's Position

Blue Granite asserts it is appropriate to defer the maintenance costs associated with the hydrotank inspection and include the unamortized balance of the deferred tank inspections in rate

base. (Tr. p. 764.27, ll. 3-4). Witness DeStefano testified that such maintenance costs, similar to tank painting, are significant, do not recur on an annual basis, and provide a multi-year benefit to the Company and its customers. (Tr. p. 764.27, ll. 4-8). Additionally, Blue Granite has funded the costs upfront for a benefit derived over multiple years, and therefore, witness DeStefano asserts the amount is akin to a prepaid item and analogous to a traditional capital investment. (Tr. p. 764.27, ll. 8-11). According to witness DeStefano, unamortized prepaid balances are generally treated as rate base and Blue Granite reaffirms its position of rate base treatment for deferred maintenance costs. (Tr. p. 764.27, ll. 11-13).

Commission's Finding

This Commission must enact standards that are just and reasonable. It is just to allow the Company recovery of reasonable and prudently incurred expenses. However, it is not just and reasonable to allow Blue Granite rate base treatment for this expense. The company classified this expense as an “expense,” and the costs for the tank are not incurred on a yearly basis.

Additionally, while this Commission is not required to follow past practice, it cannot act arbitrarily in failing to follow established precedent. Witness Sullivan presented evidence that this Commission has taken similar positions to those recommended by ORS in this case, in previous cases. As a result, the Commission agreed with ORS that the reasonable approach is to allow the Company recovery of the costs associated with the hydrotank inspections over a five (5) year period and not include the unamortized portion of the expense in rate base.

2. Unamortized Balances for Decommissioned Assets, NBV on Decommissioned Assets and EDIT (Adj. 34b)

ORS's Position

According to witness Briseno, ORS proposes an adjustment in the amount of \$4,827,755 to adjust deferred charges to include the unamortized balances as of April 30, 2020 net of a full

year of amortization for removal costs on decommissioned assets, NBV on decommissioned assets and EDIT whereas the Company proposes an adjustment in the amount of \$4,596,244. (Tr. p. 1128.13, ll. 1-4). Witness Briseno testified that the difference in adjustment amounts is attributable to the differences identified in the Amortization of Litigation Deferrals, Deferred Storm Costs, Decommissioning Costs and Net Book Value of Decommissioned Assets adjustment and the full year of amortization netted against the April 30, 2020, balances. (Tr. p. 1128.13, ll. 4-6).

Based upon calculations that were updated in the Amortization of Litigation Deferrals, Deferred Storm Costs, Decommissioning Costs and Net Book Value of Decommissioned Assets adjustment, this adjustment is updated to total \$4,818,972. (Tr. p. 1129.3, ll. 6-7).

Additionally, witness Briseno testified that witness DeStefano disputes ORS proposed adjustment because the Company does not want to have the one (1) year of amortization expense removed from the decommissioned plants and EDIT balances before included in rate base. (Tr. p. 1129.4, ll. 4-5). According to witness Briseno, the Commission accepted similar adjustments made by ORS in Commission Order No. 2018-345(A) on page 24, section G. "Other Adjustments."

BGWC's Position

According to witness DeStefano, the matching principle identified above is less relevant for deferral balances in rate base because, deferral balances are discrete, unchanging original balances that, once approved, have no further variables that affect their rate base consideration. (Tr. p. 764.35, ll. 11-17). As a result, witness DeStefano testified that deferral balances and their related amortization are "known and measurable" in a complete sense. (Tr. p. 764.35, ll. 17-18). For this reason, rejects ORS's calculation of the decommissioning/NBV and EDIT balances through 4/30/2021, which is 22 months beyond the Test Year-end and over 16 months past the audit cut-off date. (Tr. p. 764.35, l. 21-23, p. 36, ll. 1-2). Instead, Blue Granite recommends all

deferral balances be calculated as of the same cut-off date of 4/30/2020, as there is no foreseeable change in the amortizable balance that will occur between the audit cut-off and this date, which reflects the day before rates are estimated to be effective. (Tr. p. 764.36, ll. 2-5).

Commission's Finding

While this Commission is not required to follow past practice, it cannot act arbitrarily in failing to follow established precedent. Witness DeStefano proposes one set of rules for Utility Plant in Service and CIAC and another set of rules for deferred balances in rate base. Witness Briseno presented evidence that this Commission has taken similar positions to those recommended by ORS in this case, in previous cases. Witness DeStefano failed to show that taking different approaches distinguishing between deferred and non-deferred rate base items, was a compelling reason to depart from past Commission practice. As a result, the Commission finds that it should remain consistent with its past practice and adopts the recommended proposal made by ORS.

GG. Cash Working Capital (Adj. 35)

According to witness Sullivan, ORS's total cash working capital adjustment is (\$300,581), which is comprised of the cash working capital adjustments detailed below.⁴⁶ After ORS was able to verify additional rate case expenses, Order Exhibit 1 indicates a cash working capital adjustment of (\$286,181).

1. Cash Working Capital – Accounting and Pro Forma Adjustments (Adj. 35a)

ORS's Position

⁴⁶ See Hearing Exhibit 34, "Cash Working Capital." adjustment.

Witness Sullivan testified that ORS proposes an adjustment to reflect cash working capital after accounting and pro forma adjustments. (Tr. p. 1115.21, ll. 13-14). According to witness Sullivan, ORS and the Company used a 45-day allowance or 1/8 of maintenance and general expenses for the cash working capital adjustment. (Tr. p. 1115.21, ll. 14-15). According to witness DeStefano, the Company agrees with ORS's proposed Cash Working Capital adjustment. (Tr. p. 764.4, ll. 15-17).⁴⁷ No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

2. Cash Working Capital Rate Mitigation (Adj. 35b)

Witness Sullivan testified that ORS proposes to remove purchased services from the calculation of cash working capital. (Tr. p. 1115.21, ll. 18-19). ORS requested the Company to explain the change in methodology for calculating cash working capital from Carolina Water Service Docket Nos. 2015-199-WS and 2017-292-WS. (Tr. p. 1115.21, ll. 20-22). According to Blue Granite's response, it removed purchased services expenses as that is the practice with the Company's North Carolina affiliate and Blue Granite proposed this adjustment to mitigate the overall rate request. (Tr. p. 1115.21, ll. 22-23, p 22, ll. 1-3). ORS accepts the Company's methodology in this docket to calculate cash working capital. (Tr. p. 1115.22, ll. 10-11). ORS's adjustment to remove purchased services from the calculation of cash working capital results in a reduction to cash working capital of \$1,055,693. (Ex. 34). According to witness DeStefano, the

⁴⁷ Blue Granite accepts ORS's proposal regarding this adjustment, subject to the results of adjustments elsewhere that impact these figures.

Company agrees with ORS's proposed Cash Working Capital Rate Mitigation adjustment. (Tr. p. 764.4, ll. 15-17).⁴⁸ No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

HH. CIAC (Adj. 36)⁴⁹

ORS's Position⁵⁰

According to witness Briseno, ORS proposes an adjustment in the amount of \$1,128,095 to adjust CIAC to reflect the amortization of CIAC expenses, pro forma CIAC additions, and decommissioned plants whereas the Company proposes an adjustment in the amount of \$1,068,166. (Tr. p. 1128.13, l. 8-10). Witness Briseno testified that the difference in adjustment amounts is attributable to the utilization of ORS witness Garrett's depreciation rates and the updates to CIAC as provided by Blue Granite to ORS by the audit cutoff date of December 20, 2019. (Tr. p. 1128.13, ll. 10-13).

Witness Briseno testified that ORS's calculation was updated to correct an inadvertent mistake where ORS did not capture the inverse of ORS's calculation of CIAC expense. (Tr. p. 1129.3, ll. 11-13). Accordingly, this adjustment totals \$2,205,787 based upon the updated calculations. (Tr. p. 1129.3, ll. 12-13).⁵¹

Commission's Finding

⁴⁸Blue Granite accepts ORS's proposal regarding this adjustment, subject to the results of adjustments elsewhere that impact these figures.

⁴⁹ The basis of this adjustment is also discussed in detail in paragraph IV(B).

⁵⁰Much of witnesses DeStefano and Briseno's testimony relating to ORS's Accumulated Depreciation, adjustment 34, also related to the proposed CIAC adjustment.

⁵¹The updating of this adjustment also impacts the pro forma property tax adjustment, which is addressed in paragraph Y(3).

For the reasons discussed herein, particularly in paragraph IV(B), the Commission approves ORS's adjustment.

II. Plant Held for Future Use (Adj. 37)

According to witness Briseno, ORS accepts Company witness DeStefano's proposal to remove \$350,000 associated with a land purchase. (Tr. p. 1128.13, ll. 15-21). Witness DeStefano testified that the Company agrees with ORS's proposed Plant Held for Future Use adjustment. (Tr. p. 764.4, l. 14). No party contests the adjustment that ORS has proposed.

As a result, the evidence in the record supports the ORS proposed adjustment of \$0 for plant held for future use and this Commission finds it to be just and reasonable.

JJ. Excess Book Value (Adj. 38)

ORS's Position

According to witness Briseno, ORS proposes to remove excess book value for ratemaking purposes by removing \$1,937,905 from plant and \$1,473,259 from accumulated depreciation through April 30, 2020, due to new rates going into effect in May 2020, whereas the Company proposes an adjustment in the amount of (\$435,586). (Tr. p. 1128.14, ll. 1-5). According to witness Briseno, there has historically been a difference between ORS and Blue Granite's calculations of the excess book value adjustment because Blue Granite utilized the incorrect carry forward amount in Docket No. 2004-357-WS. (Tr. p. 1128.14, ll. 6-8).

BGWC's Position

According to witness DeStefano, excess book value has been included for ratemaking purposes consistent with prior Company proceedings. (Tr. p. 763.15, ll. 1-2).

Commission's Finding

This Commission must rule based on the substantial evidence on the whole record. Witness Briseno testified that Blue Granite utilized an incorrect carry forward amount and Blue Granite failed to respond. As a result, once ORS reasonably challenged the excess book value, Blue Granite failed to justify why its excess book value is correct. This Commission therefore finds that ORS's adjustment is just and reasonable.

KK. Interest Expense (Adj. 39)

According to witness Sullivan, ORS proposes an adjustment to synchronize interest expense with rate base after accounting and pro forma adjustments, using the capitalization ratio of 47.09% for long-term debt and 52.91% for equity, with a cost of debt of 5.73%. (Tr. p. 1115.23, ll. 4-7). Witness Sullivan testified that ORS calculated synchronized interest expense of \$2,001,300, less the Company's per book interest expense of \$1,828,315, yields an ORS adjustment of \$172,985. (Hearing Exhibit 34). As a result of the addition of verified rate case expenses, the interest expense adjustment is \$173,374, as indicated in Order Exhibit 1. According to witness DeStefano, the Company agrees with ORS's proposed Interest Expense adjustment. (Tr. p. 764.4, ll. 15-17).⁵² No party contests the adjustment that ORS has proposed.

The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

LL. ORS Adjustments – Service Revenues – Water (Adj. 40)

For the reasons discussed herein, this Commission finds the revenues detailed in Order Exhibit 2 to be just and reasonable.

⁵² Blue Granite accepts ORS's proposal regarding this adjustment, subject to the results of adjustments elsewhere that impact these figures.

MM. ORS Adjustments – Service Revenues – Sewer (Adj. 41)

For the reasons discussed herein, this Commission finds the revenues detailed in Order Exhibit 2 to be just and reasonable.

NN. ORS Adjustments – Miscellaneous Revenues (Adj. 42)

For the reasons discussed herein, this Commission finds the revenues detailed in Order Exhibit 2 to be just and reasonable.

OO. ORS Adjustments – Uncollectible Accounts (Adj. 43)

According to witness Sullivan, ORS proposes to adjust uncollectible accounts for ORS's adjustments to revenues. (Tr. p. 1115.24, l. 1). The percentages used to calculate uncollectible accounts were provided by the Company and were verified and found reasonable by ORS. (Tr. p. 1115.24, ll. 2-3). While Blue Granite contests ORS's proposed treatment of Blue Granite's revenues, because this Commission has accepted ORS's proposed adjustment, as indicated in this Order, it finds ORS's proposed uncollectible account adjustment to be reasonable.

PP. ORS Adjustments – Taxes Other than Income – Gross Receipts (Adj. 44)

Witness Sullivan testified ORS proposes an adjustment to gross receipts taxes after ORS's adjustments to revenues using a factor of .00527282. (Tr. p. 1115.24, ll. 5-6). This Commission has accepted ORS's proposed adjustments. It, therefore, finds ORS's proposed taxes other than income—gross receipts adjustment to be reasonable.

QQ. ORS Adjustments – Federal Income Taxes (Adj. 45)

Witness Sullivan testified ORS proposes to adjust federal income taxes after ORS's adjustments to revenues and gross receipts taxes using the federal income tax rate of 21%. (Tr. p. 1115.24, ll. 8-9). In addition, ORS proposes to reduce the calculated federal income taxes by the amortization of protected and unprotected Excess Deferred Income Taxes EDIT. (Sullivan Direct, pp. 24, ll. 9-11). While Blue Granite contests certain ORS adjustments that impact ORS's

proposed Federal Income Tax adjustment, this Commission has accepted ORS's proposed adjustments, as indicated in this Order. It, therefore, finds ORS's proposed Federal Income Tax adjustment to be reasonable.

RR. ORS Adjustments – State Income Taxes (Adj. 46)

Witness Sullivan testified ORS proposes to adjust state income taxes after ORS's adjustments to revenues and gross receipts taxes using the state income tax rate of 5%. (Tr. p. 1115.24, ll. 13-15).

While Blue Granite contests certain ORS adjustments that impact ORS's proposed State Income Tax adjustment, this Commission has accepted ORS's proposed adjustments, as indicated in this Order. It, therefore, finds ORS's proposed State Income Tax adjustment to be reasonable.

SS. ORS Adjustments – Customer Growth (Adj. 47)

According to witness Sullivan, the growth factors of 2.0392% for water territory 1, 0.0904% for water territory 2 and 2.0076% for sewer are discussed in the direct testimony of ORS witness Sandonato. (Tr. p. 1115.24, ll. 19-20). This Commission accepts ORS's proposed customer growth factors for water territories 1 and 2 as reasonable.

TT. Tax Cuts and Jobs Act

According to witness Sullivan, the Company seeks Commission authority to initiate a one-time credit of \$10.64 to each customer water and sewer service account, to return overcollections of federal tax expenses accumulated January 1, 2018 to June 28, 2018. (Tr. p. 1115.25, ll. 11-13). Using updated pro forma customer bills of 31,710, ORS calculates a one-time credit of \$10.59 per account. (Tr. p. 1115.25, ll. 15-16). According to witness DeStefano, the Company agrees with ORS's updated of the as-filed Tax Cuts and Jobs Act one-time credit to customers. (Tr. p. 764.4, ll. 18-19). Witness Morgan did not contest the calculation which gave rise to the \$10.64 credit, but did propose an alternate procedure.

The review performed by ORS found that a credit of \$10.64 was reasonable and no party contested the analysis that produced the figure of \$10.64. The evidence in the record supports the ORS proposed adjustment and this Commission finds it to be just and reasonable.

VI. FINDINGS OF FACT AND CONCLUSIONS OF LAW

Based upon the discussion as set forth herein, and the record of the instant proceeding, the Commission makes the following Findings of Fact and Conclusions of Law:

1. We find most compelling and give the greatest weight to the objective testimonies and analyses of witnesses Parcell and Rothschild. Therefore, this Commission finds that granting Blue Granite the opportunity to earn a 9.33% ROE is just and reasonable with a cost of debt of 5.73% and a capital structure consisting of 47.09% debt and 52.91% equity. All of these figures are supported by the reliable, probative, and substantial evidence on the whole record and are in the public interest.

2. Regarding depreciation rates, we find the ORS proposed annual accrual rate for each account or subaccount set forth in Hearing Exhibit 31, at Exhibit DJG-4, column 3, pages 1 to 2, and at Exhibit DJG-6, column 3, pages 1 to 2, to be supported by the reliable, probative, and substantial evidence on the whole record and are in the public interest. For all remaining accounts and subaccounts, we find the annual depreciation accrual rate set forth in Hearing Exhibit 15, at Spanos Direct Exhibit 1, Table 1 column 8, pages VI-4 to VI-5, and at Spanos Direct Exhibit 2, Table 1 column 8, pages VI-4 to VI-5, to be supported by the reliable, probative, and substantial evidence on the whole record and are in the public interest. We believe it is reasonable for the Commission to adopt these rates for regulatory purposes and to order the Company to employ them for accounting purposes.

3. We find that it is unreasonable to require Blue Granite's customers to pay for length-of-service awards where those awards are not necessary to the provision of water and wastewater service and provide no benefit to customers.

4. We find that it is unreasonable to require Blue Granite's customers to pay costs associated with employees' salaries for work done for a utility other than Blue Granite. Additionally, it is equally unreasonable to allow Blue Granite to recover expenses where Blue Granite failed to provide sufficient data justifying the expenses in a reasonable manner.

5. We find that utilities must follow regulatory accounting standards. As a result, when an entry is made for depreciation expense, an equal offsetting entry must be made for accumulated depreciation. For the same reason, when an entry is made for CIAC amortization, an equal offsetting entry must be made for accumulated CIAC.

6. We find, for the reasons discussed above, that ORS's adjustment to accumulated depreciation for the impact of the proposed depreciation rates on the test year's pro forma adjusted plant balance is appropriate and approved. For the same reason, that ORS's adjustment to CIAC for the impact of the proposed depreciation rates on the test year's pro forma adjusted CIAC balance is appropriate and approved.

7. We find, for the reasons discussed above, the adjustments ORS proposes to purchased water expense and the purchased water deferral account which limit to 10% the recovery of non-revenue water are approved.

8. We find, for the reasons discussed above, that the Annual Rate Adjustment Mechanism Blue Granite proposes is not just and reasonable and is not approved. Blue Granite is authorized to continue deferral accounting treatment of changes in purchased water and wastewater services rates by third-party providers. The Commission also declines to approve the changes Blue Granite

proposes to its rate structure to add separate purchased water and sewer treatment charges. Blue Granite shall maintain its existing rate structure of a Base Facility Charge, a commodity charge based on water consumption for water customers, and per Single Family Equivalent charge for sewer customers. Blue Granite is directed to complete a cost of service study that coincides with the test year and is included as part of its next rate case. The costs associated with conducting the study will be subject to review.

9. We find, for the reasons discussed above, that Blue Granite should not recover from its customers the \$495,206 it incurred to upfit its new office space in Greenville, South Carolina.

10. We find, for the reasons discussed above, that Blue Granite is authorized to create a Round Up Program with the modifications ORS proposes. Blue Granite is prohibited from passing on to customers the administrative and implementation costs for the Program, including the bill inserts/flyers and the modifications to Blue Granite's billing and customer service systems.

11. We find, for the reasons discussed above, that the proposed Storm Reserve Fund is approved with the modifications discussed above that ORS proposes, including setting the Fund at \$50,000 instead of \$200,000. Blue Granite also shall provide for Commission consideration detailed procedures that outline, in a transparent manner, how the Fund will be used, accounted for, and reported to ORS and the Commission. Once the procedures are submitted, there shall be a period of time for parties to provide comments and objections prior to the Commission ruling on the proposed procedures.

12. We find, for the reasons discussed above, that Blue Granite's request to amend its tariff language and fees related to LETTS tanks to change the pumping charge from \$150 to the actual cost to access, pump, and service the tanks on a periodic basis, with the changes ORS recommends

to Blue Granite's proposal, is approved. The tariff language proposed by ORS that is incorporated into Order Exhibit 3 also is approved.

13. We find, for the reasons discussed above, that the \$23,481 storm normalization adjustment proposed by ORS is approved.

14. We find, for the reasons discussed above, that ORS's adjustment to exclude the unamortized balance of deferred maintenance from rate base is appropriate and approved.

15. We find, for the reasons discussed above, that ORS's removal of one year of amortization expense on deferral items before inclusion in rate base is appropriate and approved.

16. We find, based on the substantial evidence on the whole record, that it is fair, just, and reasonable to require Blue Granite conduct a cost of service study that coincides with the test year be included as part of its next rate case.

VII. IT IS THEREFORE ORDERED THAT:

1. Blue Granite is authorized the opportunity to earn an ROE of 9.33%.
2. Blue Granite's capital structure is 47.09% debt and 52.91% common equity.
3. Regarding depreciation rates, the ORS proposed annual accrual rate for each account or subaccount set forth in Hearing Exhibit 31, at Exhibit DJG-4, column 3, pages 1 to 2, and at Exhibit DJG-6, column 3, pages 1 to 2, is adopted by the Commission for regulatory purposes and must be employed by the Company for accounting purposes. For all remaining accounts and subaccounts, the annual depreciation accrual rate set forth in Hearing Exhibit 15, at Spanos Direct Exhibit 1, Table 1 column 8, pages VI-4 to VI-5, and at Spanos Direct Exhibit 2, Table 1 column 8, pages VI-4 to VI-5, is adopted by the Commission for regulatory purposes and must be employed by the Company for accounting purposes.

4. The Annual Rate Adjustment Mechanism proposed by Blue Granite is not approved. Blue Granite is authorized to continue deferral accounting treatment of changes in purchased water and wastewater services rates by third-party providers. Blue Granite shall maintain its existing rate structure of a Base Facility Charge, a commodity charge based on water consumption for water customers, and per Single Family Equivalent charge for sewer customers. Blue Granite is directed to complete a cost of service study that coincides with the test year and is included as part of its next rate case. The costs associated with conducting the study will be subject to review.

5. The Commission authorizes Blue Granite to create a Round Up Program with the modifications ORS proposes. Blue Granite is prohibited from passing on to customers the administrative and implementation costs for the Program, including the bill inserts/flyers and the modifications to Blue Granite's billing and customer service systems.

6. Blue Granite is authorized to create a Storm Reserve Fund with the modifications ORS proposes, including setting the Fund at \$50,000 instead of \$200,000. Blue Granite shall provide for Commission consideration detailed procedures that outline, in a transparent manner, how the Fund will be used, accounted for, and reported to ORS and the Commission. Once the procedures are submitted, there shall be a period of time for parties to provide comments and objections prior to the Commission ruling on the proposed procedures.

7. Blue Granite is authorized to amend its tariff language and fees related to LETTS tanks to change the pumping charge from \$150 to the actual cost to access, pump, and service the tanks on a periodic basis, incorporating the changes ORS recommends. The tariff language ORS proposes which is incorporated into **Order Exhibit 3** also is approved.

8. Blue Granite shall file an annual report detailing all capital expenditures and capital projects costing \$500,000 or more.

9. Blue Granite shall file a schedule showing the revenue produced by each and every tariffed rate approved by the Commission and reconcile the revenue produced, by tariffed rate, to the revenue requirement approved in this Order. This schedule must detail the revenues, expenses and rate base components used to calculate the Commission approved revenue requirement.

10. The rates, fees, and charges set forth in **Order Exhibits 2 and 3**, which incorporate the adjustments as proposed by ORS and as originally noticed by Blue Granite, are both fair and reasonable and will allow Blue Granite to continue to provide its customers with adequate water and wastewater service.

11. Blue Granite shall charge the rates approved herein for service rendered after May 1, 2020. The schedules will be deemed filed with the Commission under S.C. Code Ann. § 58-5-240.

12. Revised tariffs shall be filed within 10 days of receipt of this Order, consistent with the Commission's Rules and Regulations. The tariffs should be electronically filed in a text searchable PDF format using the Commission's DMS System (<https://dms.psc.sc.gov>). An additional copy should be sent via email to etariff@psc.sc.gov to be included in the Commission's ETariff System (<http://etariff.psc.sc.gov>.) Future revisions should be made using the ETariff System. The tariffs shall be consistent with the findings of this Order and agreements with the other parties to this case. The Company shall provide a reconciliation of each tariff rate change approved as a result of this order to each tariff rate revision filed in the ETariff System. Such reconciliation shall include an explanation of any differences and be submitted separately from the Company's ETariff System filing.

13. Blue Granite must conduct a cost of service study that coincides with the test year to be included as part of its next rate case.

14. This Order shall remain in full force and effect until further Order of this Commission.

BY ORDER OF THE COMMISSION:

Comer H. “Randy” Randall, Chairman

ATTEST:

Florence P. Belser, Interim Vice-Chairman